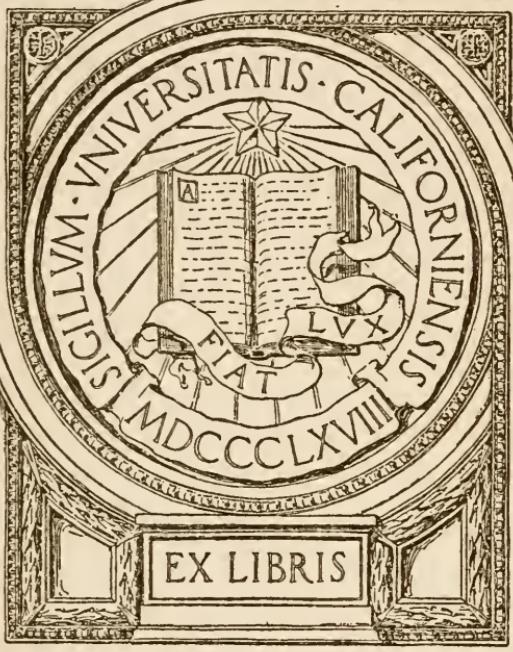


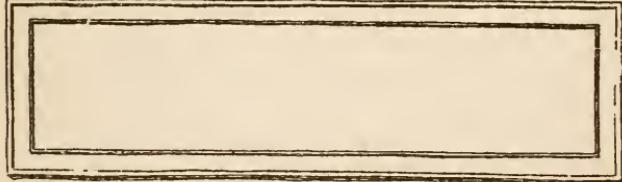
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THE GREAT QUESTION

THE
GREAT QUESTION:
FREE TRADE
OR
TARIFF REFORM?

BY

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The Great Question : Free Trade or Tariff Reform ?

THE CASE FOR FREE TRADE

CHAPTER I PRESENT AND PAST CONDITIONS

§ I

SIXTY years have now elapsed since the British Legislature adopted the system of free imports which, despite the exceptions attaching to it, differs so fundamentally from the general fiscal practice of the world that it is commonly and fitly described as "Free Trade." None of the exceptions involves, save by a possible slight accident in the balancing of import (Customs) with excise duties, any element of "protection" to home industries. Where a home producer competes with the foreign producer of articles (such as spirits, cocoa, chocolate, etc.) which are taxed for purposes of revenue, the products are as nearly as possible taxed to exactly the same degree. The true fiscal and economic antithesis, strictly speaking, is not between free imports and tariffs, but between protection and non-protection, or taxation of imports solely for revenue and taxation largely for the advantage of certain classes of home producers.

Sixty years is a sufficient time in which to test the efficacy of a fiscal system for the promotion of prosperity ; and if the free-trade system cannot be shown to have greatly furthered national wealth and well-being in contrast with the protective system which preceded it, its critics may well demand a change. The difficulty is to secure a just and logical comparison between life conditions under the two systems. On the one hand, some social reformers insist so strongly upon the amount of poverty which still subsists as to obscure the reality of the progress made ; and some tariffists naturally resort to the same line of appeal. On the other hand, those tariffists who admit the immense expansion of British trade and the improvement of British life-conditions under freed imports complain that free-traders take credit to their cause for results which are independent of it. The development of machinery, railways and steamships, they insist, has made possible a great increase in production irrespective of fiscal arrangements. And this is, of course, true. Yet some tariffists, reversing the argument of their colleagues, ascribe the expansion of manufactures in the protectionist period solely to protection. Thus Mr. Amery puts the whole credit of the increase in cotton exports between 1780 and 1812 to protective legislation, forgetting that in that period occurred the first great development of cotton-making machinery.

§ II

The points really at issue may be put in three ways. (1) Did British trade, or did it not, expand from the middle of the nineteenth century in such a fashion as to show that the fiscal change operated for good irrespective of improvements in machinery and means of transit ? (2) Has British wealth been better or

worse distributed in the past sixty years than in the sixty before? (3) Is there any good ground for supposing that a reversion to a protective system would now promote trade and industry on the one hand and a better distribution of wealth on the other? A discussion of the first two questions will involve a broad comparison of the facts of British experience. A discussion of the third will involve a comparison of British with foreign experience, and some consideration of economic laws.

In seeking to establish the facts of trade expansion, we must bear in mind that the figures of national trade in terms of *values* may give a misleading notion as to *quantities*. Much misconception, for instance, was set up by Mr. Chamberlain's contrast between the British exports of 1872 and 1902. The former year was one of inflated prices. Had the much greater quantities of the latter year been stated in terms of 1872 prices, it would have been shown that there had been a great expansion of trade where there was asserted to be stagnation. We must guard against a similar error in regard to the British trade figures of the first half of the nineteenth century. For instance, the average recorded value of British exports in the decade 1801-10 is £40·7 millions; in 1811-20 it is £41·4 millions; and in 1821-30 only £36·5 millions. Without an elaborate inquiry we may infer that more goods were exported in the third decade, at low prices, than in the first and second. And when we find that in the record year 1836 exports were very little higher than in the record year of 1815 (£53·3 millions to £51·6) we draw the same inference.

On the other hand, if, in a period in which we know prices to have fallen by reason of the improvements in machinery and transit, the total export in terms of value immensely increases, there can be no doubt that quantity of trade has immensely increased. Now, we do find

just such an expansion coinciding with successive steps towards free trade. The average annual total of British trade (exports and imports) from 1800 to 1824 is, roughly, £75 millions. That was the period of high and complete protection all round. In 1825-26 some important reductions of tariff, affecting cottons, woollens, linens, leather, earthenware, etc., were made by Mr. Huskisson; and at the same time silk goods, formerly prohibited, were admitted under a duty. Alike as to particulars and totals the results were highly significant. Whereas during the ten years before 1824 the annual average quantity of raw and thrown silk used by our manufacturers was 1·9 million pounds, in the twelve years following it was 4·1 million pounds. Within one year of the change, the number of throwing mills had risen from 175 to 266, and that of spindles from 780,000 to 1,180,000. At the same time, we find the annual average of total trade from 1826 to 1834 maintaining the level of £100 millions. From 1831, again, Lord Sydenham carried on a series of relaxations of tariff; and between 1834 and 1838 the annual average rises to £125 millions. Yet again, in 1842, Peel made a large number of reductions in import duties; and by 1846 the annual average has reached £150 millions. It was in 1846 that Peel carried his decisive measure of Free Trade, abolishing the great majority of the import duties, and enacting that the duties on corn should cease in 1849. And it is in the period from 1846 to 1860 that the annual average reaches £375 millions.

There can be no question here of inflation of prices. They had fallen, not risen. And if it be said that machinery, railways, etc., were the true forces of expansion, the answer is that machinery had been making rapid progress during the sixty years before 1850, and that railways had made rapid strides between 1825 and

1850 ; and the decisive fact remains that whereas the rate of rise in the trade average from 1820 to 1840 would, if continued till 1900, have led to a total of only £250 millions, the actual rise, first under reduced tariffs and later under an entirely non-protective system, has been to £750 millions, which at the prices of 1840 would represent at least £1,000 millions.

Taking, again, one of our chief export industries, and noting quantities instead of values, we find that whereas in the five years 1821 to 1826 our average annual export of plain cottons was 145 million yards ; in 1826-30, after Huskisson's reductions, 210 millions ; in 1831-40, under Sydenham's reductions, 310 millions ; in 1841-46, under Peel's reductions, 570 millions ; and in 1847-49, 662 millions ; and whereas the export of coloured cottons from 1820 to 1849 had risen from 134 to 542 million yards (together over 1,200 million yards), the total in 1861 had reached 2,563 millions, and in 1907, 6,298 millions. During the protectionist period machinery was certainly improving, for total export values rose only from £16·5 millions in 1826 to £26·7 millions in 1849, despite the great increase in quantities. But in the period from 1849 to 1907 *qualities* have so risen with quantities that, despite lowering prices, total export values have risen from £26·7 to £110·4 millions. Plainly, free imports have been wholesome for the cotton trade, and a similar expansion has occurred in many others.

§ III

Many tariffists, candidly confessing that a great expansion of British trade took place in the first generation of freed imports, account for it, on their principles, by saying that at the period of the change Britain had acquired a virtual supremacy in the markets of the world

for her manufactures, which "start" enabled her for a long while to maintain her advance ; but that foreign nations have latterly fostered their industries by protection to such an extent that Britain is now at a serious disadvantage. The reply here is that the primary assumption is entirely mistaken. So far from being "supreme" before 1840, British manufactures were visibly becoming endangered by foreign competition ; and it was this danger that drove many manufacturers to the side of Cobden.

The facts may be shortly stated thus : Britain did take some of the first steps in the development of machinery which set in from about 1780, and had thus an advantage over foreign countries at the outbreak of the war period of the French Revolution, which advantage she extended during the war, as against European competitors. But as early as 1820 there is record not only of immense industrial distress but of "a falling off in the foreign demand for British manufactured produce."¹ It is further recorded that not only was the export of machinery already going on upon a large scale, but multitudes of British workmen went to the Continent ; so that as early as 1836 our manufacturing rivals, American and European, worked up about three-fourths of the quantity of cotton imported into Britain, and had become formidable competitors to us in many markets heretofore exclusively our own. In 1838 the Manchester Chamber of Commerce, in a petition to Parliament, stated that Saxony then exported nearly four times as much cotton hosiery as went from Britain ; and in that year Villiers declared in the House of Commons that many workers were starving in

¹ References for this and other evidence not accessible in the ordinary statistical compilations may be found in the writer's "Trade and Tariffs."

Nottingham because German hosiery undersold British in our own markets, in despite of a tariff of 20 per cent. At the same time, he declares, " whole branches of the hardware trade have left Sheffield, and are now carried on in the provinces of Rhenish Prussia."

The growth of our trade after the freeing of imports, then, was not merely an expansion : it was a recovery of trade that had been lost under protection. What is more, protection had visibly failed to further the industries which most relied on it. The German economist, List, who founds largely upon English industrial history as interpreted by him, has asserted that " any branch of industry can be made profitable in course of time by diligence " under a protective system, and that " young industries, however imperfect and dear their products may be at first, will soon with practice equal those of other countries in every respect." This assertion is negatived by the history of both the silk and the woollen industry in Britain. Silk was chronically and deeply distressed even under an absolute prohibition of foreign silk goods ; and in 1792 Arthur Young could write, after many generations of " fostering," that " of all the great fabrics of England that of wool is *least* prosperous, and has been *most* complaining, of which the proofs are before the public : the policy, therefore, has failed." In 1729 we find a protectionist author confessing that " France beats us in neutral markets " as to woollens, though we were always great growers of wool ; and " the decay of the woollen manufacture " and the " starving condition " of the woollen workers are avowed in 1744. In the export of woollen cloths, coatings, kerseymeres, baizes, and flannels, there is a heavy and almost unbroken decline from 1815 to 1849 ; in carpets there is little advance ; and only after 1833 does there begin a marked increase in " woollens

mixed with cotton," which rapidly heightens after the tariff reductions of 1842. In that year the export was 6·9 million yards; in 1849 it was forty-two millions. And not even then had the export *values* recovered the levels of 1815, 1816, and 1818. Under freed imports the export of all kinds has enormously increased, reaching £30·7 millions in 1907, as against £5·7 millions in 1848, and £7·3 millions in 1849.

§ IV

It is not pretended that under free trade all manufactures gain equally. The theory of free trade expressly excludes such an assumption. Its central principle is that under a system of free or unprotected exchanges each country will tend most to yield the products which involve the least comparative expenditure of labour and capital. Thus, while the silk trade improved instantly when protection was lessened, it could not in the nature of things so expand as to distance the silk trade of France, where the natural advantages are so much greater. But when we consider the nation's production as a whole, we find great increases in all the great staples of manufacture; and in the national specialty of shipping the expansion has been so signal as to admit of only one explanation.

In regard to shipping it is still commonly averred by tariffists that the Navigation Acts of Cromwell and Charles II built up the British and overthrew the Dutch carrying trade. Adam Smith confessed that the Acts were not good for commerce, but defended them as promoting national defence: tariffists persist in affirming that they built up our mercantile marine. But the records prove the contrary. There is abundant evidence to show that English trade lost heavily in half-a-dozen directions as a result of the Navigation Acts, while Dutch

trade proportionally gained. It was only in the latter part of the eighteenth century that the growth of manufacturing industry enabled shipping to expand greatly. From 1726 to 1760 the native shipping in the foreign trade increased only from 432,832 to 471,241 tons ; though Britain kept a monopoly of the trade with her own colonies.

In the nineteenth century, again, our tonnage actually fell from 2·3 millions in 1821 to 2·2 millions in 1831 ; and in 1841 it had reached only 2·9 millions. In that period protection strangled alike shipbuilding and shipping. There were "preferential duties" on timber under which the suitable Baltic timber was much dearer than the unsuitable Canadian ; and hemp was burdened likewise. In 1821 the cost of building a ship of 514 tons was £4,342 in Norway or Sweden, £5,123 in Prussia, and £9,130 in England. In this state of things, so different from that of to-day, American shipbuilding could be done both better and cheaper than English ; and English traders bought many American ships. American ocean-going tonnage, too, increased more rapidly than British, rising from 899,765 in 1840 to 1·5 millions in 1850 ; while British ocean-going tonnage in the same period increased only from 2·7 to 3·5 millions. Even as late as 1860 the American figures were 2·5 millions to the British 4·6. But between 1840 and 1860 there began the revolution which ended in putting iron and steam ships in place of wooden and sailing ; and it was the heavy American duties on iron that turned the balance in favour of Britain. In 1907 our net ocean-going tonnage stood at 11,485,099, while the American had fallen to 871,146.

To-day, under free trade, Britain has nearly half the sea-going tonnage of the whole world, whereas in 1841 she had considerably less. And the tonnage of to-day,

be it observed, stands for an immensely increased carrying power. Even now, when sailing ships are far more efficient for commerce than they were in 1809, steam tonnage is to sailing as 3 to 1 in point of carrying power. To the sailing tonnage of 1809 it is practically as 4 to 1. Since, therefore, 10,023,723 of our tonnage is steam, our carrying power has increased something like twentyfold. Since 1842 the increase has been something like tenfold.

This immense increase, it should be noted, is to be reckoned as increase in "production" in the largest economic sense, since all production is properly to be conceived as a rendering of service, and the service of transportation is an essential part in the "producing" of the required article at the point of consumption. Tariffist calculations which leave it out of account in the comparison of the industrial expansions of the different countries, are thus merely illusory. And even if we confine our attention to the industry of ship-*building*, the productive expansion is still immense. In the protectionist period we bought many of our ships from foreign builders, exporting none; in 1907 we exported to foreign countries ten millions' worth, and imported £27,000 worth.

§ V

Such preliminary comparisons are essential to a valid judgment on the proposition now put forward by tariffists to the effect that a free-trading country is at a vital disadvantage in her competition with foreign countries. Since the great expansion of trade from 1903 to 1907 has discredited the case originally put forward by Mr. Chamberlain in the former year, the tariffist contention has largely shifted to the ground of "employment." It rarely proceeds upon any attempt to compare

employment-conditions in the second with those of the first half of the nineteenth century ; though one tariffist leader, Mr. Lyttelton, has not hesitated to affirm that while the protectionist system did not duly recognise the need for cheap food it "amply secured stable and continuous employment." Such a claim will not bear a moment's examination. Severe industrial distress, accompanied by wild rioting, had occurred in 1812, set in again immediately after the peace of 1815, and was chronic down to 1846. When trade was better, wages were miserable, and working hours murderously long. In 1818, many factories worked from 5.30 a.m. till 8.30 p.m. ; some even longer ; and many of the workers were children under eight, some even under six. In one Warrington factory, going fourteen or fifteen hours a day, the total week's wages of twenty-seven persons, from six to twenty-one years of age, was 27s. Later in the protectionist period, indeed, wages in some of the textile and other skilled industries at times ran very high; but the periods of great unemployment were fearfully recurrent. In 1819-20 it was nearly universal, on a heartrending scale. In 1826 it was even worse ; and desperate rioting broke out at Blackburn, Bradford, Carlisle, and Norwich ; while Glasgow and Dublin, with less violence, showed an equal extremity of misery. In Norwich alone there were 12,000 unemployed weavers. In 1829 and 1830 labourers' wages, alike in town and country, in many places were only from 2d. to 4d. a day, with bread at 10d. or 1s. for the quartern loaf. In 1838 the distress was again acute, and Chartist riots bred fears of a revolution. In 1840-42 the industrial prospect was everywhere so appalling that Peel in 1842 avowed his dread of a "convulsion." The whole industrial system seemed to be smitten with paralysis. The worst distress of the free-trade period, painful as it sometimes has

been, is slight compared with that which occurred again and again under protection.

When unemployment does occur in our time on a serious scale, it is demonstrably due to a general industrial depression, invariably beginning in a protectionist country. The collapse of 1907, from which the industrial world has not yet recovered, is only one of many that have begun in the United States. Certainly no general increase has occurred in the free-trade period : the variation in the average percentage per ten years is always between 3·7 and 5·0. In 1897-1906 it was 4·1 ; in 1907 the monthly mean was 4·2. Thus the theory that "foreign competition, backed up by tariffs," injures British industry as never before, breaks down before the first relevant statistical fact. But the tariffist case, rebutted on the issue of unemployment as soon as we come to the statistics of British experience, reverts to a comparison of recent British with foreign progress in production and export, and of British with foreign unemployment ; and to this aspect of the problem we must now address ourselves.

§ VI

It is a highly significant fact that the whole stress of the tariffist comparison between the industrial progress of Britain and that of other countries rests upon the two cases of Germany and the United States, the first possessing 50 per cent. more population, 73 per cent. more of land area, and much greater resources in the way of iron ore ; the second possessing twice our population, nearly thirty times our land area, and immensely greater resources in coal and iron, besides an enormous extent of fruitful soil, little burdened by national debt. If tariffs be a means of promoting industry and well-being irrespective of other causes, all of the tariffed countries

of the world, obviously, should in some degree show progress of a kind not traceable in free-trade countries. But though Mr. Chamberlain at an early stage of his propaganda asserted that this was the case, no one has ventured to repeat the claim.

Not even as regards France can it be made. Under a tariff, France has substantially failed to increase her export of manufactures. Yet not only was alleged stagnation of British exports the starting-point in Mr. Chamberlain's attack on free trade : the propagandists who follow him have all claimed the increase in German and American exports as proof that protection is the right policy. Between 1896 and 1905 French exports of woollen and leather wares, boots, shoes, gloves, cloths, cashmeres, and dress stuffs all fell heavily, while silks stood almost exactly at the same figure. The chief increases have been in chemicals, fruit, hides, raw and thrown silk, raw sugar, and raw wool—that is, mainly in the "raw material," the export of which British tariffists profess to deplore in the case of their own country. Italy has done no better, her increase of exports from 1895 to 1905 being also mainly in foods, ores, and raw materials. Raw and thrown silk—which get and call for no protection—account for nearly half of the entire expansion ; and silk manufactures for only £2,000,000. Austria, Russia, Sweden, and Norway have been still less successful ; and the expansion in the case of Switzerland is trifling in comparison with that of free-trading Holland. Spain and Portugal, finally, show no progress whatever on the side of exports of manufactures.

The tariffist case, therefore, must be founded solely on the instances of Germany and the United States ; and the moment the significance of this fact is realised, the fallacy of the tariffist argument becomes clear.

When it is seen that the only countries whose advance in manufacturing industry can be compared with that of Britain are the two of which both possess greater resources in iron, and one far greater resources in coal, it is plain that these resources and not the tariff are the true cause of the expansion under notice. In the case of Germany the facts are dramatically significant. Her resort to a tariff policy occurred almost simultaneously with the perfecting of the Gilchrist-Thomas process, by means of which her great stores of hematite iron, theretofore commercially worthless, became workable and valuable. More than nine-tenths of her iron output is now made by the process in question. The sudden entrance into such a national inheritance would have set up industrial expansion in almost any European country; and in one so advanced in scientific culture as Germany the expansion has naturally been of the swiftest.

In the United States, similarly, the rapid influx in the past twenty years of masses of cheap labour from Europe has made possible the rapid development of the immense coal and iron resources there available; and these, with the output of wheat, cotton, meat, tobacco, leather, natural oil and other raw materials, represent an amount of production which no tariff can do more than hamper and burden. There is, indeed, something ludicrous in the comparisons drawn by tariffists between the output from the vast resources of the United States and that from Britain, whose total area is less than half that of Texas, and is surpassed by that of three other States separately. To compare such things is to compare the resources of one small country with those of a continent. If the comparison means or implies anything, it means or implies the irrational proposition that by a resort to a system of tariffs Britain could hope to rival

the industrial output of the whole United States. We are told daily that whereas we were formerly the chief producers of iron in the world we now stand third ; and this proposition, in the hands of Mr. Bonar Law and others, stands for an indictment of the system of free imports. It is no more an argument against free imports than would be the citation of the fact that Russia and the United States produce large quantities of natural oil, and we none.

§ VII

The immediate question is, under which system can we best utilise what resources we have, and best promote the well-being of our population ; and this question is to be answered, as was before remarked, by comparing our own experience with that of other countries, and by economic reasoning. We have broadly made the comparison as regards the export trade of (1) the United States and Germany, and (2) the mass of the other protectionist countries of Europe ; and we find that the latter entirely fail to fulfil the promise made explicitly and implicitly for all tariffs,—that they will promote the export of manufactured goods. On the other hand, we find free-trading Holland not only carrying on profitably an enormous export and import trade, but yearly expanding her own manufactures despite her lack of the vital requisites of coal and iron. When we go further, and compare the expansion of German and American trade in the five years, 1903-7, we find that free-trading Britain has positively the largest expansion of all. Whereas the total British exports rose from £290 millions to £426 millions, those of Germany increased only from £246 millions to £355 millions ; and those of the United States from £290 millions to £380 millions. If we compare exports of manufactures, the

result is the same. Britain has increased from £234 millions to £342 millions ; Germany from £161 millions to £236 millions ; and the United States from £97 millions to £154 millions. Tried by the very tests which the tariffist propaganda has from the first insisted on, the free-trading country exhibits the best results. The expansion of German trade no longer proceeds with the relative rapidity of ten years ago ; that of American trade is still largely by way of export of foods, oil, tobacco, partially manufactured goods, and raw materials.

It lies on the face of the case that the British manufacturer cannot be undergoing the crushing process alleged by the tariffists. He obviously cannot be "excluded from the markets of the world," as the phrase goes : he sells more there than anyone else, despite the superior natural advantages of the two great rival nations. To a number of countries—India, China, Brazil, Italy, Turkey, Japan, Java, Austria, Mexico, Persia, etc.—we export more than we import from them. Here there can be no question of a "closed door." It is true that to a number of countries we export less than we import thence : the one order of transactions balances the other. The trade of the world, albeit it is in its totality barter of goods, is circular, and only in part by way of simple direct exchange between two nations. We carry wares to India, and the value in Indian produce thence to the Americas, getting their produce in payment alike of our goods and our services in freight-carrying. But if we sell relatively less of our manufactures to our protectionist rivals, we still sell more to them than they sell to each other. And this fact is crucial. We export far more to Germany than does France ; far more to France than does Germany ; far more to the United States than does either

Germany or France. Only of raw materials does the United States send more to Germany than we do.

Thus, once more, the tariffist's argument recoils upon himself, for if we are injured by exclusion from protected markets, the protected countries are themselves injured more, as regards their manufactures. Only for their raw material—and not always for that—can they get an open door. In point of fact, the free-trading country has nearly everywhere the advantage of the "most favoured nation" treatment ; whereas the others by their tariffs evoke tariffs against them. Whatever be the annoyances suffered by the British trader from foreign tariffs, he has never suffered such disasters as have been inflicted on continental traders by tariff wars.

It is perhaps in regard to our own colonies that he has most to complain of. Their best market for their raw material is the mother country ; but their determination to force forward their own manufactures by means of tariffs has placed high obstacles in the way of the return export of British manufactures ; and the "preferences" thus far accorded, when not illusory, seem to be bitterly grudged by those colonial producers who in consequence of them undergo any British competition in their own markets.

But while the British colonist, like the "foreigner," puts hindrances in the way of our manufactures, both alike can at the worst succeed only in diverting our markets, not in closing them. All countries alike must take payment for the bulk of their exports in goods, if they are to be paid at all ; and the highest tariff can but affect the nature of any country's imports. If our colonies will not take our manufactures, they must take some other country's products ; and either to a country exporting to our colonies, or to a country exporting to

another that does so, we must send goods in return for the raw materials the colonies send us. In no other fashion (save by services in freight-carrying, etc.) can we buy them. If our exports were absolutely restricted our imports in return would be restricted ; that is to say, the rival countries would spoil their British market.

§ VIII

There remains the test of comparative well-being among the working masses of the different countries under the two systems. Here, again, the variety of the factors of comparison permits of a good deal of statistical fallacy ; and since the collapse of the original tariffists' case in the face of the great expansion from 1903 to 1907, Mr. Chamberlain's successors have been much exercised to prove that unemployment results from free trade in an excessive degree, and that tariffs provide "constant work at regular wages." Many propagandists have persistently made the assertion that "tariff reform means work for all," an expression to that effect having been put in currency by Mr. Chamberlain ; and though other leaders of the tariffist party repudiate responsibility for it, all agree in promising that a tariff will give more employment than does free trade. Yet Mr. Chamberlain, and many others who now fight as tariffists, claimed at the General Election of 1900 that a period of "unexampled prosperity" had then been attained, under free trade conditions. The doctrine that free trade promotes unemployment has mainly grown up since the beginning of the depression at the close of 1907.

Yet that depression notoriously originated in the highly protected United States. As a result of the un-sound finance which flourishes in the atmosphere of the syndicates that have multiplied under the McKinley

tariff, depositors in all directions ceased to trust the banks ; and within a few weeks' time five hundred thousand men were thrown idle by the closing of factories whose owners could not get money wherewith to pay their men's wages. Such a check to production affected hundreds of thousands more ; and in the middle of 1909 industry in the United States has not nearly recovered the volume of the middle of 1907. Were it not for much recitation by tariffists of the wages-figures of previous years, and some positive denials of the facts as to unemployment, it would be unnecessary to add that in the intermediate period the distress has been enormous. At the end of 1907, out of 66,000 trade unionists in New York, 34·2 per cent. were out of work, as compared with 17·8, 6·7, and 12·8 in the three previous years. During the first three months of 1908, 26 per cent. were constantly unemployed ; and at the end of March, 1908, the figures were almost exactly the same as at the end of December.

In the month of July, 1908, a New York commercial journal told how the "vast herds of unemployed" in the poor quarters of the city were at the end of their savings and no longer able to buy sound food, compelled to live on damaged fruit and vegetables, and driven to substitute for coffee tea, the leaves of which they could boil three or four times. At the end of September, 1908, the New York trade union rate of unemployment was still 22·5 per cent., the great bulk of which was officially ascribed to lack of work. A tale later circulated by tariffists, to the effect that in winter the labour required to sweep the streets of snow could not be obtained, is worthless on the face of it, for the men inevitably unemployed in the building trade must have been available in very large numbers if they cared to take the work, or knew of the opportunity. In May,

1909, the state of the labour market was still pronounced "deplorable."

But even in times of normal trade, the amount of unemployment in the United States is exceptionally high. In 1897, for instance, it was found that in Massachusetts over 100,000 workers, about 30 per cent. of the whole, "found employment when the factories were most active, but were unemployed when the factories were least active." In the clothing-trade of New York, again, "during the first seven months of the year 1903 there were never less than one-fifth of the workmen unemployed, and at times between one-third and one-fourth of all the workmen were without employment." In the same year, 1,517 of the unskilled Italians in Chicago, 57 per cent. of the whole, were unemployed, on the average, over seven months in the year. According to the census of 1900, 44 per cent. of the unskilled workers in the States were unemployed during some part of the year and 39 per cent. of the whole male workers were idle from four to six months of the year. These figures have been called in question as including voluntary unemployment and sickness ; but with every reasonable deduction they must signify an immense amount of unemployment. And we have for the year 1904 an inquiry by the Massachusetts Bureau of Labour, which showed that of the 22 per cent. of lost working-time in a number of trades more than half stood for lack of work. Of the remainder more than half was due to bad weather ; and 2·70 to "lack of stock" ; idleness from which causes would in English statistics figure as simple unemployment. If the Massachusetts statistics for 1904 be at all commensurate with the English, the relative unemployment there was three times greater than in England.

It is contended that, as against the greater unemployment, wages in the United States are higher than in

England. They had need be ! Not only have the workers much longer spells of unemployment to provide for, but their costs of living are much higher. Between 1877 and 1906, wholesale prices of food had risen 28 per cent., and the prices of all commodities together 36 per cent., while rents had increased enormously, absorbing from 25 to 40 per cent. of workers' incomes. Wages made no such advance. Taking the standards of wages and expenditure for 1896 at 100, it is found that while British wages rose 9·3 per cent. from 1896 to 1906, and food prices only 7·7, American wages rose only 19·1 as against a rise of 34·3 in food prices. In the case of salaried officials and clerks the case is very much worse. A recent inquiry by Professor Johnson, Dean of the School of Commerce in New York, has proved (according to the *Daily Mail*) that " an American who to-day earns £700 a year is worse off than the American who in 1897 earned £500."

The fashion in which labour is handicapped by tariffs in the United States may be sufficiently realised from two circumstances. Though the States export wheat, which goes to make bread in England, their bread prices are at least double the English. In 1903 the average price of four pounds of bread in New York was ascertained to be 10d., and in 1905 the average price of bread in the States was " considerably higher than at any time during the previous fifteen years." As regards wool, again, we learn from an American expert that he has " been informed by manufacturers that the deterioration of wool clothes has been carried to such an extent that now there are cloths in the market of which but 10 per cent is wool." And still the prices of clothing are far higher than in England.

It need only be added that while the " poverty line," or level of fair subsistence wage for an average family,

is in English towns between £50 and £65 a year, it is in New York between £110 and £130. Thus even £3 a week in New York is not a high wage for men in regular work ; and most of those who earn that or more are in the building and allied trades, which suffer much from unemployment. If, again, we take the poverty line in the towns of the Northern States at £95, and in the towns of the South at £62, it is found that the majority of the workers' incomes are below the lines in question. The eking out of fathers' wages by those of mothers and sons and daughters seems to be common ; and some 25,000 children are employed in southern mills, working a twelve hours' day. Even in Massachusetts the factories till recently worked a ten hours' day.

In conclusion, it should be observed that all this burden and stress in American life subsists despite the existence of a great safety valve in the shape of available land. But for that, admittedly, the stress in the towns would have been still greater than it is. The life on the land, in turn, has latterly been made tolerable only by the tariffs on wool and hides, which enable the farmer to extort from the general consumer some compensation for the high prices extorted from him under the general tariff on imported manufactures. Everywhere the process is the same—a counterbalancing of the greatest natural advantages by fiscal burdens which make life at least as hard for the mass of men in the New World as in the Old.

§ IX

Turning to Germany, we note at the first glance, as against all the alleged improvement in German industrial conditions in the past thirty years, that the working hours remain much longer than in England. Here, for instance, the hours in the building trades are often

under fifty, and rarely over fifty-six ; in Germany they are usually fifty-nine or sixty. In the engineering trades, similarly, the English hours are mostly fifty-three, in Germany mostly sixty. Everywhere the Englishman has the easier life.

Some rise in German wages has undoubtedly taken place since the resort to an imperial tariff in 1879. It had, of course, begun before that year, the removal of the tariff barriers between the States of the Empire in 1870 having inevitably promoted industry. But German wages remain much lower than British. The Board of Trade inquiry of 1903 showed that in thirteen skilled trades the averages of the rates of wages in other than capital towns in Britain and Germany were : Britain, 36s. ; Germany, 22s. 6d. Other independent comparisons fully bear this out. In the mining industries the disparity is similar. In five coal districts of Prussia the average yearly wages of coal-miners were : in 1901, £51 14s. ; in 1902, £49 4s. In five iron ore districts the average weekly wages paid in mines were : 1901, £41 3s. ; in 1902, £38. Whatever advances have occurred in recent years seem to have been countervailed by the rapid increase in costs of living.

In the last quarter of the nineteenth century, as a result of the industrial expansion, there was a decline in food prices ; but here again the English worker had the advantage, his food prices having declined 28 per cent. in the period in which German food prices had fallen only 10 per cent.

Yet even in this period the *per capita* consumption of horseflesh in Munich had increased, and that of butcher-meat had fallen ; and since the beginning of the present century the lot of the workers has worsened. Making allowances for the heavy decline in the consumption

of the higher-class foods in the depression of 1901-2, aggravated as it was by the "meat-famine" set up by the tariff, we find the process continuing since. From 1904 to 1905, the number of horses killed for food in Berlin rose from 11,192 to 13,752; and in twelve other towns there were lesser increases. In Magdeburg the *per capita* consumption of meat fell from 1903 to 1905 by ten pounds, in Mannheim by eight pounds; in Königsberg, from 1905 to 1906, by thirty-one pounds. And while wages rose in the German engineering trades between October, 1905, and March, 1908, by from 6·7 to 9·2 per cent., and in the building trades by from 4·6 to 9·1 per cent., the average increase in the price of rye bread, the main food of the people, was 23 per cent., while the rise in Berlin was 32 per cent. In 1905 and 1906, again, the "meat famine" was acute. Thus, even while the high prices for protected agricultural produce permitted of a rise in agricultural wages which drew labour away from the coal mines, the masses of the people suffered heavily from the artificial dearness of food.

Economic misconceptions are set up from time to time by the testimonies of observers who note the better household economy prevailing in Germany, and the fewer signs of squalor and degradation. But these inferiorities in the popular arts of life do not alter the fact that free trade conditions in Britain yield better wages and better opportunities, if only the British proletariat could be trained to make fit use of them. A German miner who has worked in England, and who notes the inferior household economy here, testifies nevertheless that British miners are stronger, better fed, and less hard-worked than the German.

In the matter of unemployment, again, delusion has been systematically set up by English tariffists who

habitually compare German trade-union figures with British, despite the repeated warning that the statistics are not commensurate. It is true that the British figures are drawn from unions numbering only between 600,000 and 700,000, while the German figures come from unions numbering some 1,300,000. But examination reveals the fact that the German returns do not include the trades which suffer most from unemployment, while the British do. The most suffering trades in Britain in the past year have been the building and the shipbuilding. It is quite well known that in Germany the same state of things prevails ; trade reports having repeatedly declared that building there has been nearly at a standstill since 1907, while the figures of ship-construction tell the same tale. But when we turn to the German unemployment returns we find no figures from the trades in question. Shipbuilding is not represented at all ; and for the great multitude of workers employed in building we have a return from only one small union, that of the stone-carvers, numbering less than 5,000 men. In that one trade, the rate of unemployment in 1907 rose from 11·9 at the end of March to 18·8 at the end of December ; while the number of men in the union fell in the year from 4,822 to 4,320. That is to say, there were over 800 men unemployed, while over 500 more had left the union. A similar rate of unemployment throughout the building trade would mean an army of unemployed in that industry alone ; and the low percentage yielded by the total returns is thus quite illusory. But the official figures for 1908 put the matter beyond doubt. They show, in all branches of trade, the greatest amount of unemployment that has been recorded for many years.

In Germany, undoubtedly, the protection of agriculture makes possible a relatively greater employment

on farms ; and the actual depression of German industry in the past year is marked by the fact that thousands of men went back from the building and mining trades to the land, while many men from the surrounding countries who had been employed there during 1907 went back to their homes. But this does not alter the fact that the total employment fell off enormously. The central fact in the case is that the great development of German iron-production since the invention of the Gilchrist-Thomas process has created employment, firstly in the iron mines, secondly in the coal mines, and thirdly in the industries which work up iron. Only on this basis was the expansion of other manufactures possible. That the tariff is not the cause is sufficiently proved by the single fact that in 1880, the year after its establishment by Bismarck, there were 400,000 men walking the roads of Germany in search of work, and the rate of emigration increased immensely through sheer distress. But for the immediately following development of iron production, there could have been no recovery. And what the tariff has done has been simply to load the advantage from the new productive factor with burdens of all kinds, which tend towards cancelling the national as apart from the individual gain.

The latest comparisons between British and German industrial conditions confirm all that has been said above. A recent pamphlet, professing to give the report of a group of workmen from Batley who visited Germany, confutes itself in the most conclusive fashion. While the workmen who knew no German sign a report which represents German wages as higher and German cloth prices as lower than English, a separate report by the one workman-member of the deputation who knew German, completely contradicts these assertions

in detail. And they discredit themselves. If German manufacturers, paying higher wages, can yet sell cloth, quality for quality, cheaper than their English competitors, they have obviously no need for a protective tariff. Yet the protective tariff exists. If the assertions under notice were true, the Germans could habitually undersell their English competitors in the English market at a profit. They do nothing of the kind.

When we turn to the case of France, our conclusions are further confirmed. While wages all round remain lower than British, costs of living have latterly risen to a burdensome degree. Most food prices, and the prices of kerosene, gas, and coal, are much higher in France than in England ; and if the qualities of French meat be specially taken into account, the disparity becomes still greater. And all the while French protected industries complain that they are not protected enough ; while the revenue has to be eked out by all manner of new imposts, the tariff yield having utterly failed to meet the national needs. Whatever may be asserted by British tariffists, no French men of business pretend to think that the commercial expansion of France has kept pace with that of Britain.

§ X

In fine, the system of free imports is not only theoretically best for the trade of Britain : it has yielded better results as regards the well-being of her people. The drawbacks involved are in comparison small. It is true that foreign tariffs are irritating, and at times highly disconcerting to given industries. The most striking illustration of this is the case of the effect upon the British tinplate trade of the McKinley tariff in the United States. After making an immense profit in the year before that tariff came into force, it fell off greatly

in subsequent years. But the total loss inflicted on the United States was far greater.

The great rise in the cost of tinplates made cans so dear that great quantities of fruit, vegetables, salmon, and other foods had to be allowed to rot ; and only slowly did the home trade in canned goods recover, while the export trade has never regained its supremacy. The English tinplate-makers found new markets in countries which had hitherto been unable to compete successfully with the States in canned foods ; and by offering the producers of New Zealand and Central America cans at far lower prices than were now extorted in the States, developed those rival canning industries as well as their own markets. The upshot is that to-day the British export tinplate trade is larger than ever ; while the protected American industry exports almost nothing. On the contrary, in order to make it possible for American canners to export anything, the McKinley tariff has had to be cancelled to the extent of allowing a rebate of nearly the whole duty on imported tinplates which are used to make cans for the export trade.

Thus the disadvantages occasionally accruing to the system of free imports are really much less grievous than those constantly attaching to protection, though they are much less heard of in this country. The troubles of the free-trader are the obstructions in the way of his exports to protected markets, an evil which is balanced by his correlative advantages against his protected competitors in neutral markets. There he can always undersell them at normal profits. But in the protectionist countries the sufferers include the great masses of the consumers, who have to pay not merely much higher prices than are charged in free-trade countries, but even higher prices than their own producers charge to aliens. Thus German iron and steel

are habitually sold cheaper to British and other foreign buyers than to the German machine-makers who want them ; and while the British steel-maker asks to be protected against his German rivals, the German producers who use steel pray lamentably to be released from the burdens inflicted on them by their own countrymen.

In the same fashion, American manufacturers extort high prices from their own countrymen for goods which they sell cheap to foreigners. Trouble for trouble, the afflictions under protection of the exporter whose trade is strangled by the taxation of his raw material, and of the consumer who pays dear for what his countrymen sell cheap to aliens, are considerably worse than those of the free-trader under hostile tariffs.

One of the few theoretic arguments used by tariffists is that the securing of the home markets enables the protected producer to manufacture on a large scale and therefore more cheaply, and so to undersell his rivals abroad. This gross fallacy proceeds upon the absurd assumption that in a large country all factories must needs be large ; and that in a small country there cannot be a large factory. In point of fact, competition in a protected market is often made more severe by the attraction of extra capital to given forms of production ; and if in these circumstances a number of small factories are beaten out of the field, as has lately happened in the case of ironfoundries in Germany, and of various trust-ridden industries in the United States, the smaller producers in question have simply been driven into the category of "ruined industries" which British tariffists are always exclaiming over in their own country. Thus the maximum of "ruin" occurs in the protectionist countries ; and all the while the free-trading producers of England can produce alike cottons and woollens,

machinery and ships, cheaper than Germany and the States.

It is the business of the tariffist to magnify the drawbacks of free trade, and to invent many which do not exist. When once the immensely greater drawbacks of protection are even partially realised, it is seen that the latter system has nothing but disadvantages for the mass of the community which adopts it, while the former yields benefits besides which its drawbacks are insignificant.

CHAPTER II

PROBABLE EFFECT OF THE PROPOSED CHANGES

§ I

IN forecasting the probable effect of a general tariff upon which British industry we must again reason (1) from our past experience ; (2) from the experience of protectionist countries, and (3) from economic principles. The current proposals specify, of course, a low tariff. All tariffs begin low. The existing French and German tariffs on corn began about the figure proposed by Mr. Chamberlain—2s. per quarter : they now stand respectively at 12s. 2d. and 11s. 10d. The proposed rates upon other foods and upon manufactures —5 per cent. on meat ; 5 or 10 per cent. on dairy produce and other foods ; and 10 per cent. on manufactures —are also relatively low, and all alike would infallibly be raised if once put on. But we must discuss first the effects of the imposts proposed.

As to corn, the effect would certainly be a rise in price to the full extent of the tariff. Only where the taxing country produces the great bulk of its consumption can this result fail. Thus in France in 1908, when only about one-fiftieth of the total wheat consumption had to be imported, the average Paris price per quarter for the year was 38s. 10d. as against 33s. for London—an excess of 5s. 10d. with a tariff of 12s. 2d. In Germany, on the other hand, where two-fifths of the wheat consumed was imported, the average Berlin price was 45s. 2d., or 12s. 2d. more than the London price, though the German tariff is only 11s. 10d.

A tariff of 2s. on wheat, of course, could avail very little to promote wheat-growing in Britain ; and, as Mr. Balfour has admitted, it imposes a considerable burden on the farmer by raising the price of his feeding stuffs. The farmer will certainly demand, in compensation, an import duty on wool. In the United States, the farmer long ago secured it ; and the refusal of it here will be a ground of continuous battle. The woollen trade will, of course, resist ; but if the woollen manufacturers hope to get a duty on imports of woollen goods without ever granting one on wool, they take a very light-hearted view of protectionist prospects. Under free trade they have been incomparably more prosperous than they ever were under protection ; but this, apparently, is forgotten by many.

Import duties on wool, moreover, are involved in the scheme of colonial preference. Wool, food, and wood are our main imports from the Colonies. Food is specified for taxation from the outset ; wood is pointed to by tariffist leaders ; wool, the chief export of South Africa—apart from gold and diamonds, which may or may not be made subjects of preference !—and a main export of Australia, will strenuously urge its claim. And as it is argued, with apparent seriousness, that a colonial preference of either one or two shillings on wheat will so greatly stimulate Canadian, Indian, and Australian wheat-growing as to bring the price lower than ever (to the manifest advantage of the colonial and the home farmer) the same pleasant plea may do duty for a tax on wool. From the point of view of free-trade economics, the effect on the woollen export trade must be utterly disastrous ; but that consideration has not prevented the imposition of a duty on raw wool and hides in the United States ; and on dressed wool in France and other countries.

In regard to protected manufactures the habitual argument of British tariffists is that the command of the home market enables "the" manufacturer (who is apparently conceived as undergoing no home competition) to produce on so large a scale that he can afford to sell abroad at a lower price—a consideration which is supposed to be quite satisfactory to the home consumer. And seeing that Germany lays duties on iron and steel, which are the raw material of the maker of machinery, it is difficult to see how a duty on wool can be refused on tariffist grounds in a wool-producing country like Britain.

As regards cotton, an import duty on wheat and flour at once imposes a serious burden on the calico manufacturer, who uses flour for sizing. During the South African war, the corn duty was submitted to by the cotton trade as a war-tax, but its effect was at once felt in competition with the cotton exports of Holland; and the increase of corn duty which, once a beginning is made, may be regarded as certain, must prove extremely injurious to the industry. There can be no pretence that the cotton manufacturer can be compensated by command of the home market, inasmuch as the imports of cotton goods are less than a tenth of the exports. The cotton trade, then, will fare even worse than the woollen. Its best markets are in the East; and on tariffist principles it is impossible to justify the refusal to India of the power to tax imports of cotton manufactures. Thus "colonial preference" has no comforts for the cotton trade; though a precarious preference on woollens in Canada may lure on the woollen manufacturer.

A general duty on manufactures, further, involves a duty on imports of machinery. Now, it has more than once happened that a distressed trade in Britain has

recovered by resort to foreign machinery. The boot-making trade is a notable case in point. When hard pressed, some dozen years ago, by American competition, it was saved by getting the newest American bootmaking machines on better terms than were permitted by the American machine-maker to his own countrymen—a procedure which is one of the charms of tariffism. The result has been that the British import of boots has fallen to some £750,000 worth, while the export is about three times that amount; and the home trade, estimated at £40,000,000, is obviously in the hands of the home manufacturer. He is thus tempted to demand an import duty which will enable him to raise his prices. But he will have to reckon with the certain demand for a duty on imported hides and leather, such as exists in the United States. And, whether or not he can hope to overpower this demand, it is economically certain that an increase in his home prices will not merely distress the poor consumer but check demand. If, then, the manufacturer pockets higher profits, it will be at the cost of reduced demand and lessened employment for his workers. And if it should happen that he is again in need of foreign machinery, the duty upon it will of course bar his way. At best he can hope to extort raised prices from his countrymen in compensation for his lost export trade.

A duty on machinery, of course, will equally affect textile manufacturers; and in the case of the cotton and woollen trades may be a further and fatal burden on their exports.

When we come to iron and steel, the perils of tariffism become more and more menacing. Leading tariffists avow that they will tax iron and steel imports, for the express purpose of promoting employment. It is true that in some cases the same reasoners—Mr. Bonar Law,

for instance,—are understood to promise that they will never tax the steel plates and other materials used in shipbuilding. But the self-contradiction of their doctrine at this point is absolute ; and the proposed compromise is hopeless. Iron-founders and steel-makers will never submit to be excluded from the benefits of a tariff ; and in the end, as our own old experience and the later experience of the United States abundantly prove, all such claims tend to triumph. Such a result can be averted only by the overthrow of the entire tariff system. The iron and steel makers of Germany, it is true, have had to submit to free imports of all shipbuilding requisites ; but the German shipbuilding trade is a much smaller matter than the British. And if there is any lesson to be drawn from our own experience and from economic inference, it is that import duties on shipbuilding material will be fatal to British shipbuilding.

Even if the British producers of iron and steel could be induced to let in shipbuilding materials free in consideration of the exclusion of all other forms of foreign competition, the disaster would simply be transferred to other industries, such as those of engineering and machine-making. We export locomotives to a large amount, and import practically none. This export could not survive the protection of steel and iron. And the destruction or impoverishment of the export trade in machinery, as it happens, is implicitly demanded by the arguments of Mr. Balfour and others to the effect that in exporting machinery we are helping foreigners to compete with us in manufactures. To the export of ships the same argument applies, unless it be contended there that our own carrying trade is injurious to our manufactures inasmuch as its earnings entail imports of manufactures as well as food, and that

to encourage foreign shipping is therefore a desirable course.

In regard both to machine-making and tinplate-making, further, it is certain that restriction of iron and steel imports will tend to throw absolutely idle many works at periods of large demand for these products. It has again and again been noted that at such times only foreign imports have enabled many of our own works to go on. Thus the very pretext of "making work" would infallibly be stultified by a general tariff such as tariffists demand.

And even if a tariffist administration succeeded in setting up a tariff which taxed finished manufactures and let in all the intermediate manufactures that are the raw material of higher industries, there can be no escape from the Nemesis of restriction. If, say, we exclude motor cars by way of "making work" in that industry (which, as it happens, is a very thriving one under free trade), we must of necessity either export less of the goods which at present balance the imports, or render less service in carrying or otherwise. The utmost that the tariffist can rationally hope for is to employ more men in making motor cars at the cost of employing fewer in making machines, ships, and locomotives. And as the price of the cars will be considerably raised, the total employment for capital and labour will of necessity tend to be less.

To judge from the general tone of tariffist propaganda, the restriction of employment for shipping which must follow upon a reduction of imports and exports is never contemplated, certain as it is. Some shipowners are even found in the tariffist ranks, their theory being that an increase in the number of long voyages will result from a system of colonial preference, inasmuch as more wheat will come from Australia and New Zealand, and

less from Europe. But such reasoners either forget that they will be at a loss for extra outward cargoes to the Colonies, or regard the increased cost of freightage of food with an equanimity which will hardly be shared by the public. And they seem entirely to forget that an export duty on coal, which would limit their outward cargoes to Europe, is one of the favourite schemes of tariffists, who at this point ignore all considerations of employment, and talk only of coal export as "loss of capital," though they are avowedly eager for a policy which would rapidly exhaust our iron supply. Such perpetual self-contradictions of theory and policy are an outstanding feature of tariffism.

It thus becomes evident that the industrial dangers of tariffism are hardly susceptible of exaggeration. The whole fabric of British industry would be strained to its foundations. By the common consent of the banking interest, the financial supremacy of London, which has survived the imposing developments of a few years ago in the States, cannot survive a systematic restriction of imports and exports. The transit or "re-export" trade, which is an important and growing factor in that financial supremacy, would simply disappear under a tariff, in the absence of a systematic provision of free ports, which no tariffist appears to contemplate. And if we consider industry apart from finance, we cannot but forecast an enormous amount of unemployment. This happens chronically in the United States, where tariff conditions develop tidal movements of speculative trade which invariably lead to frightful collapses. Finally, as we have seen, a grievous increase in costs of food from a tariff is made perfectly certain by the recent experience of the United States, Germany, and France. If such increases occur in self-feeding territory like the States, they cannot conceivably be evaded here.

And if any tariffist still clings to the shibboleth that "the foreigner will pay," he may be invited to explain why the foreigner refused to pay the recent addition to the import duty on tobacco. If his answer is that this was because we do not produce tobacco here, let him next explain (1) why he does not propose a preferential duty on tobacco in favour of India and South Africa ; (2) why Mr. Chamberlain, after proposing a duty on bacon, which we *do* produce, withdrew the suggestion on the score that bacon, being a favourite food of the poor, ought not to be made dearer ; and (3) why, if "the foreigner will pay" on any article which we ourselves produce, there should not be import duties on wool, wood, leather, and iron ore.

The certainty of a great rise in costs of food is practically conceded by tariffists when, admitting the cheapness of living in Holland as against Germany, they fall back on the plea that in Germany there is more employment for labour. The greater employment is simply a matter of the developing mineral resources of the larger country, which nevertheless supports a far smaller population to the square mile than the other ; and the retort is thus perfectly irrelevant.

It is difficult to maintain seriousness over the plea, already noticed, that "preference" will so stimulate corn-growing in the empire as to cause a production that will lower prices below any figure yet recorded. It is unintelligible how the politicians who advance this thesis can suppose that Colonial and Indian producers of wheat will for any preference deliberately increase their production to the point of their own impoverishment. As for the non-economic plea that a preferential duty on food may soon enable the Colonies and India to supply the whole imported food of Great Britain, the least reflection will show that the alleged advantage

is to be attained under conditions of the most obvious jeopardy, and that even apart from these risks it is counterbalanced from the start by disadvantages of the most serious kind. The argument assumes that our present wheat and meat supply from Argentina as well as from Europe will cease. Our great export trade to Argentina, then, will at once be fatally checked by the lack of return cargoes for our ships. Thus once more the export trade which tariffists profess to regard as vitally important will receive a crushing blow from their first act.

But there will not even be left the sense of security that, by implication, is held to follow upon the creation of self-feeding conditions within the empire. Canadian wheat, for one thing, would for several months of the year be at the mercy of the United States, through which it would pass. But that risk is a trifle compared with the weather risk. It has repeatedly happened that the harvests were bad simultaneously in India and Australia. If there should happen at the same time a shortage in Canada, the mother country would simply be face to face with famine. The former supply from Argentina would have ceased to be produced ; and the chance of an adequate surplus in Europe in such circumstances is visionary. The shortsightedness of imperialistic politics has seldom been more startlingly manifested than in the complete ignoring of these obvious dangers by tariffist writers and politicians.

It must not be forgotten, finally, that the resort to a tariff policy by Great Britain must tend to force a heightening of tariffs against her and her colonies alike in all protectionist countries. The burlesque suggestion, still occasionally heard, that a British tariff will lead to the abolition of others, and so to universal free trade, is obviously not entitled to serious attention,

seeing that a " broadening of the basis of taxation " is universally demanded by tariffists as necessary to the raising of an adequate imperial revenue. Such a basis would in the terms of the case disappear if other countries took off their tariffs. What will happen in the case put, if experience be any guide, will be such a raising of foreign tariffs as has always followed on the raising of any one tariff in the past. And as the tariffs of Germany, France, Italy, and the United States have visibly restricted their trade with each other, a British tariff will only be one more obstacle to international exchange.

CHAPTER III

TARIFFS AND REVENUE

To discuss ethically and otherwise the merits of the forms of taxation open to a free-trade government would be to cover all the ground of the controversy that has been set up by Mr. Lloyd George's first budget. As regards the purely fiscal side of the matter it may suffice to point to the significant facts (1) that the taxes most angrily denounced in the debates over that budget had already been imposed in protectionist Germany and America, and in our own protectionist Colonies; and (2) that Germany, faced by a much larger deficit than ours for 1909, without the excuse of having begun to pay Old Age Pensions, has proposed to resort to new taxes, the most important of which is already imposed in Britain, and has made no attempt to expand her revenue from import duties. It thus appears that free-trade taxation is a more elastic source of revenue than protectionist duties. One of the chief complaints against Mr. Lloyd George is that his taxes will bring him in far more revenue than he requires. No such charge seems to be possible in the case of the existing tariffs or the new taxes proposed in France and Germany. And it is notoriously the most embarrassing of the difficulties of our tariffists to explain how they expect to fulfil at once their promise to "keep out foreign manufactures" by way of making work for Britons, and to raise from their tariff on foreign products the increasing revenue which they declare to be necessary.

Mr. Balfour's latest definition of his policy, it will be remembered, specified small duties on a large number

of articles. Such a plan ostensibly contemplates no exclusion of imports such as now come in ; and it accordingly makes no pretence of fulfilling the commonest tariffist promises. But as little does a scheme of many small duties promise to meet the need for an increasing revenue, and still less does it promise to meet a large deficit. Since, in the terms of the tariffist proposition, practically the whole of our imported food supply is to come from our Colonies or possessions, it will pay only the lower or preferential tariff-rate, if it pays at all. And as the amount of finished manufactures that we import is relatively small, an adequate revenue from that source seems impossible. Such a tariff as would suffice to bring in ten millions if present imports of this kind were continued, would in practice cut those imports down. We are once more forced back upon the heavy taxing of food, or the taxing of raw materials. Even those tariffists who propose to "make the foreigner pay" admit when pressed that they do not expect him to pay more than a low tariff. Whether they expect our colonists to pay our food duties is not clear.

But that food or raw-material taxes must yield the bulk of the revenue to be raised by a British tariff—as apart from existing customs duties—seems clear enough. In that case, it becomes hard to guess wherein the moral superiority of tariffist over free-trade taxation is supposed to consist. Politicians who detect iniquity in every form of tax on land values are ostensibly quite at ease in their minds concerning a tax on the bread of the poor. That is to say, they propose to lay on the very poorest citizens a tax which such citizens must pay in a far higher proportion to their means of subsistence than can occur in the case of the well-to-do. A bread-tax is paid by the poor man on his main article of subsistence. By the rich citizen it is paid in a quite trifling

proportion, bread being one of the staple foods on which he spends least. And while the flour of the poor man's bread is much the same as that of the rich man's, the latter purchases much higher qualities of liquor and tobacco without paying tariff in proportion. If moral considerations are to count in the choice of taxes, the tariffist forms of taxation seem to be put out of court as instantaneously upon ethical as upon economic grounds.

It is only among the well-to-do, further, that there can be any material gain from tariff. It can enrich landlords, and some manufacturers: it cannot enrich wage-earners, whose costs of living under a tariff will always outpace their increase of wages. Thus tariffist taxation is flagrantly inequitable from every point of view, besides being injurious to trade. It vitiates no less the distribution than the production of wealth.

Finally, it is the most wasteful of all modes of revenue-raising. Mr. Balfour's scheme of multitudinous small duties, which has been accepted by his party, will mean the maximum of collecting staff with the minimum of revenue, and, it may be added, the maximum of smuggling. Many thousands of officers will be employed in inspecting and valuing small imports and collecting small duties. "Will be," that is, if the British people adopt a system that stands condemned by every test of economics, of ethics, and of common sense, which is improbable.

CHAPTER IV

THE POLITICAL ASPECTS

THE term "corruption" carries a variety of meanings, standing for very different modes and degrees of subordination of public to private interest. They range from direct embezzlement to the open promotion of legislative measures designed to enrich the promoters. In the latter type of cases, self-seeking may claim to be the natural and universal practice, and justified as such. But, just as in the practical and the theoretical bearings of the term "selfishness" there may be measured all the difference between gross egoism and what we term self-abnegation, so in the political pursuit of "self-interest" there may be noted all the degrees of motive between public spirit and private greed. A man of benevolent and sympathetic character is gratifying his personal bias when he seeks to make others happy; even as is an unsympathetic egoist when he makes himself comfortable at others' expense; but it is to the latter only that the term "selfishness" applies in its stigmatic sense. A man who votes for a law which will secure feeless education for his children, or the prospect of an Old Age Pension to himself, is certainly voting in his own interest; but he may reasonably claim that he is seeking at the same time the greatest good of the greatest number. On the other hand, it is obvious that when men seek election to Parliament by promising pecuniary boons to electors there begins a risk of such a subordination of public to private interest as may very well come under the term "corruption." But the difference between offering a voter money for his vote,

and asking for that vote in order to set up Old Age Pensions, is still obviously broad.

When we come to consider the political action of classes and parties, we note the same general parity of motive and the same deep practical distinction between pure self-seeking and the pursuit or safeguarding of a public benefit in which each may hope to share. It has been contended by Mr. Balfour and others that the landlord class of England was no more chargeable with an evil selfishness in its determined maintenance of a Corn Law which secured high rents than was the manufacturing or any other class in striving for cheap food and fiscal conditions more favourable to trade. And no doubt there arises in such cases a conflict of claims wherein neither side can pretend to be disinterested. When, of two persons in a compartment of a railway carriage, one fears a headache from lack of fresh air, and therefore demands open windows, while the other fears catching cold from a draught, and insists upon closing them, which can plausibly impute selfishness to the other? Obviously, neither landlords nor manufacturers as a class can pretend to be relatively unselfish. But when we find either landlords or manufacturers collectively subscribing sums of money to secure the passing of laws which will enable them to increase greatly their rents or their profits, there is only one question to be asked before we decide on calling them self-seekers in a bad sense, and pronouncing their policy to be heading in the direction of corruption.

That question is, do they aim at increasing their own gains through the loss or at the cost of other people who are not at present in any position of privilege, or do they aim simply at removing privileges which enrich given classes and individuals? In other words, are they seeking to set up privilege or to pull it down?

Either way, they are presumably seeking their own interest ; but the destroyer of privilege has a plea which his antagonist has not. A tariff is a creator of privilege. Even if it benefited workers as well as masters, it would still be giving them privilege as against all other workers. And the privileged must always be the minority. The number of manufacturers who could hope to raise their prices under a tariff is considerable ; but the number of workers whose work is insusceptible of protection is far greater than that of the workers whose products can be protected. In coal-mining, on railways, in the industries of transit, in the building trades, in clerical work, in shop-keeping, are employed millions whom tariffs can only burden ; and in such industries as those of cotton and shipbuilding there are myriads more whose products are practically insusceptible of protection in the home market. When such majorities vote against a tariff, they vote against being plundered. The minority, on the other hand, is seeking for power to plunder. And such seekers are plainly on the path that leads towards corruption.

When class combinations go to work openly, as the landlords did in England under the Corn Laws, or as the agrarians and the manufacturers have done in Germany since Bismarck began tariff-making, it may be denied that their action is "corrupt," however obviously and systematically selfish. But where parties are at all nearly balanced, the tendency to actual bribing of legislators, or to the running of purely mercenary candidates, becomes irresistible. In Japan, quite recently, twenty-three legislators were actually convicted of receiving bribes from a Sugar Trust ; though Japan is a country where loyalty to the State has been supposed to be a ruling passion in all classes. In the United States, trade interests notoriously combine to

pay representatives, run elections, and finance parties. In Canada there is a similar state of things. In Britain, under a tariff, it would infallibly grow up.

Hitherto, the " war chests " of the two leading parties have been subscribed to on general grounds, the subscribers on both sides believing that the dominance of their party means the well-being of the State. But as soon as one party definitely becomes a tariffist organisation, it will be supported in an essentially corrupt fashion by the interests which are upheld by the tariff. Candidates' expenses will be paid by trade organisations, as a matter of normal trade expenditure. At present, the great drink trade renders its services to the party which protects it in the ordinary way of its business ; but landlords and manufacturers will be able to carry their point as tariffists only by money payments to candidates and organisations.

Against such combinations of trades and classes the general public is powerless : it cannot be so organised. The labour party, it is true, pays its members ; but they defend the interests of the whole industrial mass, and, save by standing for " union " wages in public employments, do nothing to advantage a section against the rest. Apart from this, the only feasible combinations will be those of interests hitherto unprivileged, which will demand tariff privileges. If the producers of wool and hides, iron and steel, are not protected at the outset, they will combine to demand protection ; and the classes already privileged will be forced to grant privileges to the newcomers as the price of their support. Thus the whole of the tariff-making party's organisation will become a network of corrupt transaction. And the evil will infect the whole social structure. Even as the shareholders in breweries vote individually for the candidate who protects the drink trade from

taxation, so will the shareholders in all concerns whose products are protectable vote individually for the candidate who promises to secure their dividends by means of tariffs. Under such circumstances, all talk of a "scientific" tariff becomes farcical. The different interests simply dictate their own terms: the only compromise is a balance of claims.

Against these inevitable and demoralising evils, tariffists set up the alleged advantage of a "closer union of the Empire." All the while, as a matter of fact, they have introduced into the Empire a new and deadly factor of disintegration. As soon as it becomes a settled fact that the Colonies are to be kept in attachment only by the offer of trade advantages, the ties of race, language, and history are discounted; and those colonists who have most indignantly protested against the assumption that their loyalty is purchasable will be silenced by the actual ratification of the process. The wheat-growers having been "squared," the producers of timber and wool will be practically invited to set a price on their complicity. If colonial wheat is to have a preference in the markets of the mother country, why not colonial wood and wool? That such preferences would increase the cost of production is no answer to the demand. If increased costs of food are to be compensated by increased wages, cost of production is already increased by the tariff on foods.

Then will come into play the rival interests of the colonial manufacturers. Already the woollen manufacturers of Canada complain bitterly of the preference accorded to British woollens in their markets: they want an absolute tariff high enough to kill British competition. Every other colonial manufacturing interest in turn will play the same game; and the resulting imperial union will be the most precarious that

has ever existed since the governments of George III began quarrelling with the American colonies on questions of taxation. The "colonial offer" is on the face of it only a temporary and highly unstable combination of colonial interests, which a colonial election might any day upset.

Nor is this all. One school of tariffists, of which Mr. Amery is a distinguished member, not only denies the desirability of universal free trade, but questions the advantageousness of free trade within all national areas. Mr. Amery, in his lectures entitled "The Fundamental Fallacies of Free Trade," strongly endorses (pp. 55-57) the argument of Sir J. Byles to the effect that under universal free trade an average country would be "*undersold abroad and at home*," while it could "*neither grow nor make for itself, nor yet buy from abroad*;" being left with "*neither domestic industry nor foreign trade*." The argument, which at once asserts and denies that the country in question would have foreign imports, is unintelligible ; but there it is ; and the school of Mr. Amery is thus in fundamental opposition to the school of Sir Vincent Caillard, which advocates colonial preference as a means to Imperial Free Trade. "It is quite conceivable," says Mr. Amery further, "that, as far as purely economic considerations go, the United States might with advantage be divided into two or three main zones, and moderate internal tariffs introduced as between these zones." Why the tariffs should be moderate is in no way explained. Mr. Amery's principle is that tariffs make possible the development of local industries and forms of exploitation which would not otherwise be possible. The use of this argument in the United States has always led to high tariffs as against other countries, never to low ones ; and as the economic differentiation between Britain and her

colonies is much more marked than between the zones of the United States, Mr. Amery's thesis will be a standing argument for high tariffs as between the mother country and her colonies and dependencies.

Thus between the constant temptation to classes and interests in the colonies on the one hand to put a "preferential" price upon their adherence, and on the other hand to quarrel and haggle with their British competitors, the Empire would be subjected under a tariff to strains such as it has never known since the mother country established free imports. At home, we should be making the continuance of the imperial system perilously dependent upon dearness of food for the people, to say nothing of taxes upon raw materials. Such a state of things is incompatible alike with closer constitutional union of the Empire and with any advantage to imperial defence. There is not the least reason to suppose that colonial preference could ever lead to an acceptance by the colonies of a proportional share in the military burdens of Britain. They may in an emergency offer ironclads ; but they will not pool resources. If they did, they would be increasing at once their own complications and ours. A fiscally co-ordinated empire would become responsible for the policy of Australia and South Africa in excluding Asiatics ; Australia in turn would be under pressure to comply with Japan ; and India would have a new grievance against the Empire as a whole. The only approach to an "imperial" solution would be a brutal denial to India of the semblance of participation in the alleged advantages of the system ; and the imperial prestige would stand rooted in deliberate injustice. A Canada armed and fortified against the United States will be no very reassuring phenomenon in any case ; but if Canada so armed and fortified were combined in a fiscal system

of mutual preferences with the mother country, British relations with the States would assume a still more unpeaceful aspect. A reversion to protectionism in Britain, in fine, would increase militarist tensions all over the world.

Mr. Amery has affirmed that "Free Trade is based upon the assumption of perpetual peace." This is obviously untrue. Tariffists are in fact much given to quoting Cobden's dictum as to the necessity of a supremely strong British navy. What is true is that free trade makes for peace by minimising grounds of quarrel ; and in fifty years of free trade Britain has had no war with a rival industrial power. The recrudescence of tariffism, on the other hand, has been accompanied by the rapid and burdensome increase of the world's armaments. A new imperial fiscal combination would only promote the increase. And in so far as favour is won in Britain for tariffist proposals by promises of co-ordination of imperial defence, the hopes set up are worse than illusory. The colonies, though they have latterly taken some new steps towards collaboration, have consistently refused to contemplate any thorough co-ordination : there is absolutely no "colonial offer" of that kind.

On the other hand, in declaring, as does Mr. Amery, that "the economic development of England is absolutely bound up with the economic development of the Empire, and with the maintenance of the economic unity of the Empire," our tariffists are preaching to England a doctrine of despair, and this in the face of the greatest industrial and commercial developments in her history. Mr. Amery after admitting in one place (work cited, p. 3) that "free trade sixty years ago" was "not very far removed from being a sound policy," affirms in another passage (pp. 126-7) of "Cobden and his Fellows,"

that " instead of reforming, they destroyed. Instead of lopping off the dead branches, they cut the living tree at the root." If the vast commercial expansion of Britain in the past sixty years is the growth of a dead trunk, there is an end of all political and economic argument. In every element of popular well-being, the Britain of to-day is happier, richer, more hopeful than she was sixty years ago. Was it not Mr. Chamberlain who, in his election address of 1900, affirmed that under the rule of himself and his colleagues the country had attained " a period of unexampled prosperity ? " The fact that the same statesman in 1903 asserted that British trade had been stagnant since 1872, demonstrates only the nullity of the tariffist case. In the five years ensuing, the " doomed " trade of the nation expanded as it had never done before, and the check of 1908 is the result only of the far worse collapse in the protectionist United States. Britain under Free Trade may continue to do very well ; under a tariff she would enter upon an industrial career of shallows and miseries, sacrificing her well-being as a nation to the rapacities of the separate interests which seek to enrich themselves at the cost of the masses of the people.

THE GREAT QUESTION

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TARIFF REFORM
OR
FREE TRADE?

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THE CASE FOR TARIFF REFORM

CHAPTER I

THE PRESENT INDUSTRIAL SITUATION AND ITS ORIGINS

THE reader is probably aware that the foundations of our commercial supremacy were laid by a process of persistent and rigorous State supervision. It is quite a mistake to suppose that our industrial success was simply the outcome of natural aptitude undirected and uncontrolled. Rather was it the result of positive legislation inspired by a steady determination to establish the maritime and industrial supremacy of this country. The best tribute to the success of the old system was that at the middle of last century it seemed not only safe but expedient to deprive our trade of any measure of defence and State direction. A very few figures will show the advance of our industries in the days before *laissez faire* was elevated into a principle of policy. Even the drain of the Napoleonic Wars

failed to check that progress. For example, the exports of British cottons advanced from £355,600 in 1780 to £18,951,994 in 1810. The production of iron, which in 1796 was 125,079 tons, reached in 1839 the figure of 1,347,790 tons. Between 1820 and 1845 the British exports of cotton manufactured goods advanced from 251 million yards to 1,902 million yards, of yarn from 23 million lbs. to 135 million lbs. During the same period the exports of woollen and worsted yarn actually advanced from 3,924 pounds to 8,271,906 pounds. It cannot be questioned that our industries flourished immensely under the system of bounties, protection and State supervision, which was swept away in the middle years of last century.

But the thirty years that followed the repeal of the Corn Laws represent the greatest advance in prosperity and industrial power that England has ever known. Between 1846 and 1872 British exports rose from £58,000,000 to £256,000,000, and imports from £76,000,000 to £371,000,000. The output of iron, "the bread of the other industries," increased from 2,250,000 tons in 1850 to 6,700,000 tons in 1872. Between 1846 and 1870 the exports of cotton manufactured goods rose from 1,065 million yards (value £16 $\frac{3}{4}$ million) to 3,267 million yards (value £56 $\frac{3}{4}$ million), while the exports of yarn increased five or six fold. During the twenty years between 1850 and 1870 the exports of woollen and worsted yarn advanced from 13,794,000 lbs. to 35,537,000. Population grew, in spite of heavy emigration from Ireland, from 27,724,056 in 1851 to 31,845,379 in 1871.

This amazing advance was due to several causes. The first of these was the sudden increase of the world's gold supply following on the discoveries in California and Australia in 1848 and 1851. That increase gave an

enormous stimulus to European industry, which had been suffering from the serious shortage of currency, and more particularly to English industry, because England controlled the Californian and Australian trade, and received the great bulk of the gold in exchange for her goods. With the general revival of industry came an enormous expansion of railway construction in Europe and America. England had invented railways. In building locomotives, in making rails, in laying permanent way, English manufacturers and engineers were a generation ahead of all the world. The whole world wanted railways and machinery and England alone could supply them. Lastly, throughout this period an almost continuous series of internal or external struggles, beginning with 1848, "the year of revolutions," and ending with the Franco-Prussian War, paralysed our chief industrial rivals in turn, while creating an additional demand for our goods. It was an age of extraordinary developments, economic and political, of which we alone were in a position to reap the full benefit.

What was the share of Free Trade in that great development? The repeal of the Corn Laws brought no immediate prosperity. Prosperity began in 1849, the year after the Californian discoveries. It did not bring cheap food either immediately or for thirty years to come. Up to 1879 the average price of wheat remained over 50s. a quarter, and the price of meat, cheese, butter and other articles of food rose rapidly. The condition of the people improved enormously, but the improvement was due, not to cheap food, but to the Factory Acts, to the recognition and development of trade unions, and above all to the enormous expansion of British industry, and the consequent rise in wages. Nor can free imports be credited with any very substantial

share in the increase of the export trade. The total quantity of corn imported was insufficient to account, on the balance of trade, for more than a fraction of our growing export. The same applies to the import of manufactures, many of which were actually protected till 1860,¹ and virtually protected by our industrial supremacy for many years after. In fact, it is difficult, on analysis, to discover what difference would have been made to the situation, as far as England alone is concerned, if instead of adopting free imports she had maintained a low duty on foreign manufactures and foodstuffs throughout the whole of this period. Free imports existed in theory; in practice we enjoyed all the advantages of moderate protection.

On the other hand, our export trade enjoyed a greater measure of real free trade than ever before or since. The free-trade movement was hardly less vigorous on the Continent than in England. Tariffs were steadily reduced, either independently or, like the French tariff in 1860, as the result of negotiations. Throughout the whole period English free traders could fairly claim that our action had not been without its influence on other countries, and could console themselves with the hope that the principle of universal free trade, though not accepted with the spontaneous promptitude that Cobden had predicted, was yet, on the whole, making steady progress. Such tariffs as existed were not, as a rule, high enough to prevent British manufactures from entering freely and competing successfully with the local industries. The whole commerce between England and the Continent and America was, in the main, what the advocates of free trade had hoped it would be, an exchange of complementary services. England sent

¹ Mr. Gladstone fixed the duty on finished manufactures in 1857 at 10 per cent.

them her manufactures and received their raw materials and foodstuffs in exchange. In other words, free trade, throughout this period, was not inconsistent with, and even to some extent promoted, the objects which our trade policy had always pursued.¹

The great industrial expansion which culminated in 1872 was followed by an inevitable reaction. Over-production led to a fall in prices, and the fall was accentuated and prolonged for twenty years by the restriction of currency brought about by the demonetization of silver, begun by Germany in 1873, and followed by all the leading industrial States. The depression, throughout the later seventies, was universal. England, indeed, suffered less in some respects than other countries, for her greater industrial power enabled her to relieve the situation by "dumping" in foreign markets. By doing this she was also, incidentally, crippling her weaker rivals, and could hope to be in a stronger position than ever when the tide turned. Under free trade conditions this was inevitable. It was the realization of this fact that stopped the free-trade movement in Europe and initiated the return to protection which has been the most conspicuous economic event of the last generation. The United States had already definitely embarked on a policy of high protection after the Civil War. In 1879 Bismarck persuaded Germany to follow their example. In 1881 France threw over the Cobden treaty and raised the average scale of her duties by more than 20 per cent. Since

¹ Mr. Morley, discussing this question in his *Life of Gladstone*, writes: "Mr. Gladstone was far too comprehensive in his outlook to suppose that the great outburst of material prosperity during the years in which he controlled the exchequer and guided Parliament in affairs of money, was wholly and without qualification, due to budgets alone. To insist on ascribing complex results to single causes is the well-known view of narrow and untrained minds." (Vol. ii, p. 68.)

then practically every other industrial power has followed suit, and most foreign tariffs have been raised still higher in the last twenty years. The closing of the doors to British trade led to a vigorous "fair trade" movement in England in the early eighties. But the movement was short-lived. The free-trade theory had secured far too strong a hold over the public to be seriously shaken. The general belief was that other countries were injuring themselves more than they injured England, that they would before long realise their mistake, and that meanwhile British trade could find other outlets.

The first effect of foreign tariffs upon British trade was a purely restrictive one. Our exports to what had hitherto been our most profitable markets ceased to expand, remained stagnant, and even showed signs of decline. Our trade found an outlet in neutral markets and in the British possessions to make good the deficiency. But the old buoyancy had completely disappeared. Instead of developing by leaps and bounds, as in the preceding generation, the British export trade remained practically stationary for thirty years.

But the foreign tariffs affected British exports not only by restricting their gross increase, but also by changing their character. The direct preference given by them to the importation of raw materials and partly manufactured goods tended to draw a steadily increasing proportion of goods of this class from England, while reducing the proportion of fully-finished goods. In 1902 America was sending us as much manufacture as she received, manufacture, too, of a competing kind.

The proportion of fully or mainly manufactured articles in our total exports fell from £875 per £1,000 in 1880–1889 to £804 per £1,000 in 1898–1907. The fall was continuous through every decade. The proportion of

raw materials and partly manufactured goods in our imports advanced by a large and continuous rise from £106 per £1,000 in 1891–1900 to £125 per £1,000 in 1898–1907.

Meanwhile foreign industries, so far from being ruined by protection, developed rapidly behind the shelter of their tariffs. Very soon they began competing successfully with British industries in the markets of the world. According to the theoretical conclusions of the free-traders, it was only possible for a country to protect its home market at the cost of injuring its export trade. From this it logically followed that the British manufacturer would be at an advantage compared with the protected manufacturer in every market except his own. British trade ought, consequently, to have ousted foreign competitors from all neutral markets, and even in protected markets the proportion of British imports to total imports ought to have shown a decided increase. The very opposite has taken place. In almost every market, protectionist or neutral, foreign or British, the proportion of British imports to total imports has steadily declined. In the period 1881–1890 the proportion of British imports to total imports in the German markets was 14·8 per cent.; in the period 1896–1905 it had fallen to 10·9 per cent. The proportion of British imports to total imports in the American market in 1880–1889 was 25·6 per cent. In 1896–1905 it had fallen to 18·3 per cent. In the fourteen principal foreign markets taken together our imports fell from 19·7 per cent. of their total import in 1880–1889 to 15·3 per cent. in 1896–1905.¹ Even in the British Colonies and possessions there has been the same relative decline. The proportion of British imports to total

¹ For details see the excellent tables in Mr. Holt Schooling's *British Trade Book*.

imports in the Imperial market fell from 61·5 per cent. in 1880–1889 to 50·4 per cent. in 1897–1905.

Even more significant is the fact that foreign manufactures have, in steadily increasing quantity, displaced British manufactures in the United Kingdom itself. In 1855–59 the average import of foreign manufactures was 20·7 million pounds sterling. In 1895–99 it had risen to 109·6 million pounds sterling and in 1905–8 to 149·5.

The greater part of these imports are in no sense specialities but are ordinary staple commodities which compete directly with British manufactures of the same class. Moreover, the increase has not only been large in actual amount, but also in proportion to our total import trade. In 1855 our import of foreign manufactures was only 1·5 per cent. of our total import. In 1875 it had risen to nearly 2 per cent. For the period 1880–89 it was 20·2 per cent, while by 1898–1907 it had risen to 24·8 per cent. The increase in the import of manufactures is even more marked when it is compared, not with the total volume of imports, but with our imports of raw materials. In 1883 we imported £165,000,000 of raw materials and only £53,000,000 of manufactures. In the decade 1898–1907 we imported an average of £180,400,000 of raw materials and £134,800,000 of manufactures. In 1907, a year of high prices and world-wide industrial activity, we imported £241,000,000 of raw materials, and £155,000,000 of manufactures. In 1908 both fell off again: manufactures by £11,000,000, raw materials by nearly £38,000,000.

The whole character of our foreign trade has, in fact, been transformed, and transformed in a fashion directly contrary to what was contemplated when free trade was introduced. It is essential to keep in mind that the

object Cobden aimed at by getting rid of all regulation of trade was, in this respect, precisely the same as that which was aimed at, and achieved, by protectionist legislators in the past. Both wished to secure the largest possible import of raw materials in order to stimulate production and provide employment within the country. Both wished to purchase these as far as possible with finished manufactures. For the first thirty years after the repeal of the Corn Laws, that object was in the main attained, under conditions which, as has been pointed out, virtually amounted to low tariffs all round. For the last thirty years, under thorough-going protection on the one side and unrestricted free imports on the other, that object has been increasingly frustrated.

To the free importers of the present day that transformation in the character of our foreign trade seems a matter of profound indifference. Because every commercial transaction is presumably profitable to the individuals concerned, they assume that it must be equally profitable to the nation, and as long as the totals of our foreign trade show imposing figures, contentedly believe that all must be well. What they fail to see is that foreign trade in itself constitutes no particular advantage to a nation. Its volume affords no indication whatever of national prosperity. The prosperity of a nation depends entirely upon its production, and the value of its foreign trade lies solely in the assistance it furnishes to production.

Let us illustrate the practical effect of foreign tariffs in this respect. Let us take that of the woollen trade. Supposing we import £1,000,000 of raw wool. By employing pickers and cleaners, spinners and weavers, upon it we produce, first, let us say, £1,200,000 of picked and cleaned "tops," then say £2,500,000 of

woollen yarn, and, lastly, perhaps £5,000,000 of fine cloth. If we can manage to send abroad £1,000,000 worth of cloth to pay for the original wool, we are left with £4,000,000 worth of cloth to the good. From the point of view of employment that £4,000,000 represents the wages and profits of all kinds upon the whole industrial process. From the point of view of national prosperity it represents that amount of a useful commodity available for our consumers. But now suppose that foreign tariffs with high duties on woollen cloth and a low duty on yarn forced us to balance our trade by exporting £1,000,000 of yarn. Instead we have only £1,500,000 worth of yarn left. That yarn can be woven into £3,000,000 of cloth. In other words we are £1,000,000 worse off as a nation, and our weaving industry has lost £1,000,000 of employment. If foreign tariffs compel us to export our wool in the form of "tops," we have only £200,000 of "tops" left convertible into £1,000,000 worth of cloth, and our spinners and weavers have lost £3,000,000 worth of employment. Lastly, let us suppose that protected foreign industries, while taking only yarn from us, manage to compel us to take £600,000 worth of finished cloth. In that case we shall only receive £400,000 worth of raw wool, which will barely make up enough yarn to pay for our whole import of wool and cloth and leave nothing in the country for the employment of the woollen industry.

That the example I have given is not a purely imaginary and impossible one is shown by the actual history of the woollen industry. By prohibiting the export of raw wool and putting heavy duties on the import of cloth we built up gradually the greatest woollen industry in the world. During recent years, since foreign tariffs have been effectually applied, our foreign trade in wool

has undergone a complete change. From 1895 to 1907 our exports of woollen and worsted manufactures, as distinct from tops, noils and yarns, to the principal foreign protected markets diminished from £12,000,000 to £7,000,000. During the same period the export of tops and noils to the same markets more than doubled, the export of yarns increasing by £800,000. In other words, the tendency of our woollen and worsted exports to diminish rapidly was only checked in some degree by the increase in the export of tops, noils and yarns, which as yet those countries were not producing in quantities sufficient for their own needs. In 1895 60 per cent. of the value of all the woollen goods exported to those markets consisted of finished manufactures, and only 40 per cent. of tops and yarns ; in 1907 this percentage was almost exactly reversed, 41 per cent. consisting of manufactures, and 59 per cent. of tops and yarns.¹ The only exception has been in our trade to those markets in the Empire where our woollen goods enjoy a preference.

Even the strongest free-traders cannot but admit that our woollen trade with protected countries has suffered, and that it has completely lost its original character. But they console themselves with the idea that it is after all a relatively small affair when compared with the total home trade. What they do not realise is that foreign trade and home industry are intimately connected and that the change in the character of the former has inflicted a most serious check on the productive power of the latter. It is not surprising that within the period under review the amount of employment in the woollen industry, so far from showing a healthy development, has positively declined. Between

¹ See a speech delivered by Prof. Hewins to the Bradford Chamber of Commerce, July 12th, 1909.

1874 and 1900 the number of persons employed in the woollen and worsted factories of the United Kingdom declined from 276,600 to 244,700, which meant a loss of £23,000 a week in wages.

What is true of the character of the woollen trade is true of most departments of our foreign trade. In most of them the tendency has been for the import of half-manufactured and wholly-manufactured goods to increase at a greater ratio than the import of raw materials, and for the export of raw materials or only partially-manufactured goods to displace the export of finished manufactures. Our net export of manufactures, that is to say, the excess of our export of manufactures over our import of manufactures, declined steadily from the seventies onward.¹ The large but, apparently, transitory upward fluctuation of the last few years by no means compensates for the steady decline of the whole preceding period. The great significance of these figures arises from the fact that it is the net export of manufactures which, together with the earnings of our shipping and the interest from our oversea investments, represents our power of purchasing raw materials and foodstuffs to employ and feed our population.

Meanwhile, between 1882 and 1902 the German net export of manufactures rose from £50,000,000 to £91,400,000, and stood at £143,900,000 in 1907. In the same period the German import of raw material rose from £64,000,000 in 1882 to £127,400,000 in 1902, and to £232,200,000 in 1907. In the case of France the net export of manufactures rose from about £40,000,000 in the early eighties to over £60,000,000 in 1902, and to £67,400,000 in 1907, while in the same

¹ For figures see Mr. Holt Schooling's *British Trade Book* (Table 53).

period the import of raw material has risen from £96,000,000 to £114,000,000 in 1902, and to £155,000,000 in 1907. Even in the United States, where foreign trade plays so small a part of the whole, and where the home production of raw materials is so enormous, the same process is visible. The exports of manufactures increased from 162 million dollars in 1882 to 453 million dollars in 1902, to 740 million dollars in 1907, and 751½ million dollars in 1908. The imports of raw materials for the same years were 134 million dollars, 303 million dollars, 477 million dollars, and 363 million dollars. In 1882 the imports of manufactured and partly-manufactured goods were 175 million dollars more than the exports. By 1902 the corner had been well turned and the exports exceeded the imports by 74 million dollars. In 1907 exports exceeded imports by 102 million dollars, and in 1908 by 162 million dollars.

In the case of our protectionist rivals in the last generation, as in the case of England in previous centuries, the whole object of interfering with the character of foreign trade was to increase the volume of home production, multiply the opportunities of employment, and raise the prosperity of the people. That the interference did, in fact, produce the desired change in the character of their foreign trade is obvious. Has it also had the desired effect upon their production? If there is any force in the arguments as to the bearing of foreign trade upon production which have been developed in the preceding pages we should almost be forced to conclude, even in the absence of direct corroboration, that the productive power of our protectionist rivals has, during the period in question, increased more rapidly than our own. And that conclusion is borne out by all the facts. Thirty years ago, when the trial of strength between protection and free imports

first really began, our industrial supremacy was undisputed. We produced more iron, more steel, more woollen and cotton goods, in fact more manufactured goods of every kind, than any country in the world, and in most of the great staple industries more than any other two countries combined. We employed more men and paid a larger total of wages. The following statistics show the completeness with which we have been ousted from our old position :

PIG-IRON PRODUCTION.

Average	Great Britain tons	Germany tons	United States tons
1876-80	6,600,000	2,100,000	2,200,000
1901-05	8,700,000	9,300,000	18,200,000
1908	9,290,000	11,624,495	15,936,018

STEEL PRODUCTION

Average	Great Britain tons	Germany tons	United States tons
1876-80	1,000,000	510,000	810,000
1901-05	5,100,000	8,000,000	15,300,000
1907	6,000,000	12,000,000	23,000,000

A similar story is told by the statistics of our woollen and even of our cotton industries.

There is one great industry, the greatest of all industries even in this country, which under free imports has declined not only relatively but actually. Since free imports have existed in this country in practice, as well as in theory, the history of British agriculture has been one of disastrous retrogression. For the first thirty years after the Repeal of the Corn Laws, British agriculture enjoyed a substantial natural protection, which Cobden believed to be permanent, in the heavy cost of transporting agricultural produce from foreign countries. In the course of the seventies the enormous development of the American railway system and the great fall in steamship freights threatened to inundate the whole of Europe with cheap agricultural produce and destroy European agriculture. Germany, France,

and most other European countries, realising the enormous importance of maintaining their agricultural population, not only for social and military reserves, but also as the best home market for their manufactures, took effective steps to that end, even at the risk of raising prices to the general body of consumers. In England, the entire change which had come over the situation since the Repeal of the Corn Laws was ignored. The figures are almost too familiar to need quotation. It may suffice to say that between 1871-75 and 1907 the acreage in this country under wheat declined by 55 per cent.

Germany, on the other hand, has preserved and improved that home market for its industries. The output of German agriculture has strikingly increased, and that increase has not been inconsistent with an equally steady increase of live-stock. Last, and most important of all, the agricultural population of Germany has been effectively kept up and represents an element in the national life with which we have nothing to compare. And that maintenance of an agricultural population has not been at the cost of Germany's industrial population. On the contrary, the total industrial output of Germany, and consequently its total industrial population, has been increased and not diminished by the preservation of a large and steady home market in its agricultural population. The increase of that industrial population now amounts to nearly a million souls a year. The volume of German emigration, once the largest in Europe, has shrunk to very small proportions, and is more than balanced by the immigration of workers from adjoining countries. To explain the growth of German industries by the growth of population, as free-traders sometimes do, is to put the cart before the horse with a vengeance.

The immense development of German industry is not a mere incidental consequence of a sudden instinct on the part of the Germans to multiply more rapidly. The Germans multiply and stay at home because their industries offer a constantly increasing field of employment.

From the social point of view, indeed, the most striking feature of modern Germany under protection has been the enormous and continuous increase of employment shown both in the growth of the population, more particularly of that part of it which is engaged in skilled productive industries, and in the rise of wages and of the standard of living. In Germany, as elsewhere, 1908 was a year of commercial depression, but these conditions were far less keenly felt in Germany than in the United Kingdom. In his annual report for 1908 Herr Consul Schwabach writes : " In no branch of trade did the crisis become acute. It lessened the possibilities of employment, and thus led to dismissals of hands, reductions of working hours, and in part to a lowering of wages, but neither within the consular district of Berlin nor elsewhere in the German Empire did unemployment increase to anything approaching an alarming extent. . . . German industry had to rely on the home market and, severe as the test was, the market stood the serious strain of the largely increased supply of goods with which it was burdened, and although it showed every sign of weakness it did not collapse. This strength is eloquent proof of the favourable effects of the improved health and prosperity which had spread particularly among the lower classes as a result of the almost continuous rise in the level of wages during the last decade." Dr. Schwabach attributes this strength of the German home market to the steady growth of German population, which has increased from 45,222,113 in 1882 to 51,770,284 in 1895, and to

61,720,529 in 1907. The report shows that the numbers engaged in professions, businesses, or trades, increased in the same periods from 17,632,008 to 20,770,875 and 26,827,362 persons. The six working-men who formed the Gainsborough Commission that went to Germany in 1905 wrote in their report :

" We are not enquiring for party purposes ; but must lay stress on the fact that Germany's development as an industrial State and the increase of the wages of her working people, as well as the continuous improvement of the conditions of life of her working classes, has been going on and is still going on under conditions of industrial protection. This is an indisputable fact. It can be left to him who runs to read."

Again they wrote :

" Wherever we have been in Prussia we have seen no lack of employment amongst industrial workpeople ; on the contrary, there has been everywhere a demand for skilled workmen which could not be supplied."

Dr. Schwabach wrote in his report for 1907 : " The average annual wage of a workman in Germany has risen between 37 to 38 per cent. during the last seventeen years, whilst the ratio of the price of commodities has risen at the utmost 25 per cent."

All the Commissions which have visited Germany during recent years report favourably and even enthusiastically about the social and industrial condition of the German working-classes. The brassworkers of Birmingham wrote : " We saw no case of underfed, poorly clad, or untidy children, either in the streets or in the schools." " No men, women or children are to be seen in the streets in an unmended condition." " There are anomalies here which we do not attempt to account for ; but in the face of the people being undoubtedly better nourished than in England, it would

appear that cheap food is not the only important consideration in a nation's welfare." "Slums such as ours do not exist." "The unemployed question is being solved by an uplifting of the unskilled labour market through fitting it for better and more skilled employment. The skilled labour at the top has gone still higher to make room for that at the bottom."

The new official statistics of unemployment collected from the returns of a certain number of trade unions show, as far as they go, that unemployment in the skilled industries is far more serious in England than in Germany. In 1907 the average rate of British trade union unemployment was 4·2 against a German rate of 1·5. For the first six months of 1908 the British percentage was 7·2, the German 2·8.

But employment in the skilled trades is a comparatively smaller matter. What is really serious in England is the constant growth of the unemployment question due to the increase of the floating underpaid element of unskilled labour, of men dependent on non-productive industries, to the relative diminution of the men employed at skilled industrial work, and to the actual diminution of the population engaged on the most constant of all employments, agriculture. Unemployment due to defects in industrial organisation, unemployment due to indistinct fluctuations, both these exist in protectionist countries as well as in England. What is peculiar to the England of the last twenty years is the chronic under-employment due to the fact that our greatest natural industry, agriculture, has been almost ruined, while our other industries have not developed sufficiently to keep pace with the normal growth of population.

CHAPTER II

TARIFF REFORM AND ITS EFFECTS

THE inevitable conclusion from our survey is that the experiment of unregulated free imports has proved a disastrous failure ever since it has had to face a determined and systematic policy of State regulation elsewhere, and that it is high time for a reform of our policy. The nature of that reform is no less clearly indicated. Foreign tariffs have restricted our exports ; foreign industries have encroached upon ours not only in neutral markets, but in the markets of the Empire and in the British home market itself ; lastly, in the absence of any attempt on our part to regulate our imports, the whole character of our foreign trade is being more and more determined by other countries, and determined in a way injurious to our prosperity. Obviously, then, what we need is the power to control the character of our foreign trade ; the power to safeguard our home market for our own industries ; the power to secure a wider oversea market by negotiation both within and without the Empire. And that power we can exercise, as we exercised it in the past, and as other countries exercise it to-day, through our customs tariff.

That, in essence, as far as its purely economic side is concerned, is the policy which was first advocated by Mr. Chamberlain in 1903, and, in its main features, has been adopted by the Unionist Party since. That policy contains two main proposals. The first is that we

should impose moderate duties, averaging about ten per cent., on foreign manufactured imports in order to secure a steadier home market for British industry, and in order to strengthen that industry by stimulating the import of raw materials. The second is the imposition of low duties, averaging about five per cent., on foreign foodstuffs, remitting these duties either in whole or in part in the case of foodstuffs produced in other parts of the British Empire. This second proposal is based on the assumption that, in return for this preference in the British market, the other states and dependencies of the Empire will give a reciprocal preference to British goods over foreign goods, and thus secure a larger and steadier export market for our industries. Incidentally it is also intended to make use of these duties, more particularly those on foreign manufactures, as a basis of negotiation with foreign countries for the reduction of certain items in their tariffs which particularly affect us, and thus to improve our position in foreign markets.

How will Tariff Reform affect British industries ? In the first place, it will enable the British manufacturer to supply a very large share of the manufactured goods at present imported from foreign countries. That share would, probably, very soon amount to £100,000,000 out of the £150,000,000 of foreign manufactures at present imported. Estimating our total output of manufactures at £800,000,000, that would mean a direct addition of $12\frac{1}{2}$ per cent. to our production. But the total increase to production, and consequently to employment, in the country will include not merely the £100,000,000 directly transferred from foreign manufacture to home manufacture, but a large additional amount due to the increased purchasing power of the home market represented in that transfer. The wages spent in paying British workmen will be spent by them ,

again in supporting other British workmen instead of being paid to foreigners and spent again in strengthening foreign industries. Looking at the home market alone, the total eventual addition to production due to tariff reform may be reckoned at anything up to £200,000,000.

So much for the gain due to the protection of the home market. To estimate the gain due to preference is in some respects less easy, though, on the other hand, we have, up to a certain point, actual experience to go upon. Most of the self-governing parts of the Empire have already given a preference to British goods. The actual effectiveness of preference may be estimated from the Canadian figures.

So far, however, preference has been purely one-sided and tentative. Really substantial preference can only be expected in return for preference on our part. To estimate its value there are two considerations to be taken into account. The first is the amount of foreign trade in the markets of the Empire which would be directly transferred to the United Kingdom. The second is the increased purchasing power of the rest of the Empire which would result from a grant of preference in the British market. The total import of foreign manufactures into the British Dominions and dependencies amounts to £53,682,000, and of that fully two-thirds could be transferred by a really effective preference. Taking the other consideration, we note that the total white population of the self-governing Dominions is some 13,000,000, who buy our manufactured goods to the extent of £67,000,000, or about £5 per head. Under preference that amount would rise considerably, irrespective of any growth of their market. But the transfer to the Dominions of a great portion of our present imports from the United States, Argentina,

Russia, and other foreign countries would mean a very rapid direct increase of their population. And that direct increase would be followed by a far larger indirect increase as the influx of emigrants and of capital enabled them to develop their vast natural resources. In fact, it is hardly possible to set any limit to the growth of the Dominions in the next generation or two. Mutual preference will not only enormously accelerate that development, but also insure that the industries of this country will participate in its benefits. The stimulating effect of preference on India and on our other dependencies will be no less marked, though the actual scope for development, at any rate in the near future, is not likely to be so great. The immediate good effect, then, of preference on British industries is bound to be considerable ; its ultimate effect is almost incalculable.

What will be the effect of tariff reform on our trade with foreign countries ? In answering that question the essential point to keep in mind is, that anything which strengthens our productive capacity in the home market increases our competitive power in foreign markets. It is on that principle that the German and American export trade has been developed. In our case the advantage for export purposes will be even greater, for in addition to the home market of the United Kingdom, our manufacturers will have the privileged markets of the Empire as a basis to work from. Judging by the example of other countries, the most probable effect of tariff reform, therefore, will be to increase our export of manufactures to foreign countries. And that effect may be appreciably strengthened by using our tariff for purposes of negotiation. It is extremely unlikely, in the present condition of opinion in the leading protectionist countries, that we shall be able by negotiation

to secure any very substantial general lowering of tariffs. But we shall be in a position, whenever foreign tariffs are rearranged, to secure individual concessions on special items of importance to British trade. At present, under the most favoured nation clause, we do, indeed, get the advantage of all concessions which are made as a result of bargaining between protectionist countries. But as those concessions are made particularly in the interest of the bargaining countries they are often of no value whatever to us. A reduction of the Russian duties on champagne in return for a reduction of the French duties on petroleum is of no practical value to a most favoured nation which exports neither.

What then are the objections which, up to the present, have stood in the way of the adoption of this policy ? They are most of them stated, with no little emphasis, in a manifesto issued on July 12th of this year (1909) by a body styling itself the City of London Free Trade Committee :

“ The proposed taxation of imported food and manufactured articles would . . . raise the price of the necessities, the comforts and the conveniences of life. . . . It would diminish the purchasing power of the home market, upon which national industry and employment mainly depend. It would handicap our export trade and our competition with rivals in neutral markets by raising the cost of the raw materials we work on, which largely consist of manufactured and partly manufactured goods. And in so far as it checked our imports, it would automatically restrict our exports and diminish the volume of our foreign trade. . . . Any possible increase in employment in the making of goods for the home trade would be completely outweighed by a decrease in the employment of those engaged in making goods for the export trade, and by the

contraction in the consuming power of the home market itself."

Let me begin by taking the objection that a check on our imports will automatically restrict our exports and that, therefore, we shall lose as much employment in the export trade as we shall gain in the home trade. The answer to this is very simple. Tariff reform is neither intended to check imports in general nor is it in the least likely to have that effect. Its object is to check a particular kind of import, viz., foreign manufactures, in order to encourage other imports, viz., raw materials and foodstuffs. And the desired result will follow naturally and inevitably from the conditions under which it is imposed. If the tariff causes certain goods to be made in England which are at present imported, then, obviously, we shall have to import an extra supply of raw material with which to make those goods. The balance of the value of those goods is represented by wages and profits of all kinds. These are spent either on foodstuffs or imported luxuries, such as tobacco, in which case there will be a directly increased importation of these commodities, or on other manufactures, in which case there will be a further demand for raw material. In one way or another the reduction in the imports of manufactures will automatically be balanced, not by a reduction of exports but by an increase of the more desirable imports. That is the theoretical answer, and it is the answer which is confirmed by the experience of other countries. It is ridiculous to talk of protection checking exports in consequence of the check to imports in face of the enormous increase of both the imports and exports of a country like Germany. The real effect of the German tariff is best seen in the enormous increase of the German imports of raw materials which has already been referred to. A very good instance of the

same principle in this country was furnished by the imposition of a higher duty on "stripped," *i.e.*, partially manufactured, tobacco a few years ago. The effect was not to reduce the total importation of tobacco but simply to reduce the importation of stripped and increase the importation of unstripped tobacco. Our exports remained unaffected while additional employment was afforded to several thousand persons.

This idea that tariff reform will reduce imports and therefore reduce exports is simply based on a mis-understanding of the economic process known as the "balance of trade." Yet no argument is more consistently used by free traders in the belief, apparently, that it completely disposes of the case for tariff reform. The point is a vital one. The whole free trade case rests on the supposition that the employment given by the tariff is gained at the expense of a corresponding loss of employment in the export trade. Once this is clearly realized not to be the case, once it is understood that the employment secured by the tariff is additional to the export trade, and, indeed, strengthens the export trade by building up the home market and by facilitating the inflow of raw materials, then the bottom is knocked out of the whole free-trade argument.

The other main objection raised by free-traders is the one at the beginning of the paragraph quoted, namely that tariff reform must raise prices. A duty on foreign manufactures must necessarily, they argue, raise the price of British manufactures in the protected industries and so not only injure the consumer but also handicap our export trade. A preferential duty on foreign food-stuffs must similarly, they assert, raise the cost of living.

As regards the effect of tariff reform on the price of

manufactures, the free-trade argument is, at first sight, very plausible. " If the tariff doesn't raise the price what possible benefit can the manufacturer get ? If he cannot manufacture as cheaply as the foreigner to-day, why should he manufacture more cheaply when the spur of foreign competition is removed ? " To answer these questions it is necessary to consider what are the factors which determine cost of production.

The first of these is the cost of the raw materials employed. Now one of the chief effects of tariff reform will be to stimulate the inflow of raw materials, to make this country a larger purchaser of raw materials, and, consequently, to put it in a position to buy its raw materials more cheaply than at present. To this the free-traders at once retort, as in the manifesto quoted above, that many partly or wholly manufactured goods are the " raw materials " of other industries. That is true, in a sense, when we look at any industry from the point of view of the individual manufacturer. Pig iron is the steel maker's raw material. Steel is raw material from the point of view of the maker of tools. But in dealing with national industry as a whole the term " raw materials " has a perfectly simple and definite meaning and is confined to minerals, such as coal and iron ore, in the state in which they come from the mine, and to unwrought animal or vegetable products such as wool, hides, cotton, rubber, oil-seeds, etc. Tariff reform will make these cheaper and not dearer, and as far as these are concerned British industry will be in a position to manufacture more cheaply than before. If tariff reform is to raise the price of pig iron or woollen yarn, and so increase the cost of making steel or woollen cloth, it will be due, not to an increase in the cost of raw materials but to some other factor in the process of production.

The next factor is the enterprise, skill and efficiency of the industrial population. In most countries where protection has been introduced it has been, mainly, because these have been lacking, and the immediate result has generally been a rise in the price of the protected manufactures. Gradually as industrial skill has developed, and enterprise has been encouraged by favourable conditions of competition, prices have fallen again. In England that is not the case. Immense as has been the progress made by our rivals there is still no country whose skilled labour is more efficient than ours, after making all allowance for differences in rate of wages. And if our enterprise seems occasionally inferior to that of our rivals and of our own predecessors of half-a-century ago, that is due, not to some innate defect but to the present unfavourable conditions which directly discourage industry. As far as this factor is concerned, tariff reform in England, unlike protection in industrially undeveloped countries, will not tend to raise prices but to lower them. It will give greater encouragement to the enterprise of our investors and captains of industry, greater scope to the skill of our workers in all grades, less scope for the breeding of the casual and unemployable which is one of the worst features of the uncertain and fluctuating industrial conditions brought about by free imports.

Another factor of the very first importance in these days of wholesale production by machinery is the scale of production. A factory which turns out 10,000 tons of steel a week can do so far more cheaply than a factory which turns out 100. And the same factory, whatever its size, can produce much more cheaply if it is running at its full capacity than if it is only working at half capacity, because the standing charges are in that case

divided over a much larger total of output.¹ But large-scale production depends on the size of the market available. It is no doubt true that the size of factories does not vary directly with the size of the market, and that small factories may exist and prosper in a large country. But, none the less, the larger and more continuously expanding the market the greater the encouragement to that production on a large scale which leads to cheapness, and the greater the opportunity for existing factories, whatever their size, to work at full pressure and therefore economically. Now, under present conditions, our protectionist rivals undoubtedly have a much larger market than our own manufacturers. They have their own large and rapidly developing markets reserved to themselves and they have the neutral market which includes the free-trade market of the United Kingdom. Our manufacturers have no reserved market at all, small or large. They just have their share in the British and neutral market in competition with all the world. Their market is much smaller and less certain than that of the German or American manufacturers, smaller even in that respect than the market of the Belgian manufacturers who, after all, have the same markets open to them as the British and their own little domestic market as well. The present state of affairs directly discourages cheap production in England while encouraging it elsewhere.

¹ This point was clearly brought out at the last annual meeting of the shareholders in the Ebbw Vale Steel, Iron & Coal Company. Mr. Joseph Brailsford, Chairman of the Company, said : " During the past year the German exports into this country of billets and bars was an exceedingly heavy one. Finding their own market shared some of the general depression, the Germans adopted the simple expedient of exporting heavily into our free English market. By so doing they insured for themselves regularity of employment and economy of working cost, and they at the same time effectually deprived the English maker of both these advantages."

Tariff reform by securing a larger and more assured market for our manufacturers, both at home and throughout the Empire, will naturally tend to cheapen production in this country. At the same time it will narrow the market open to our rivals and so raise their cost of production. So far from being "handicapped" in neutral markets, as the free-trade manifesto assumes, our manufacturers will be in a much stronger position than they are now. They will be in a position to steady employment and keep down their working costs by exporting from the shelter of a large and secure home market, instead of having their employment disorganized and their costs of production increased by being "dumped" upon by their foreign rivals.

There is yet another factor affecting the cost of production, and that is national and local taxation. Under present conditions the whole of that taxation in this country falls upon the goods produced in the country. The addition to the cost of production in this respect is usually estimated at $12\frac{1}{2}$ per cent. or 2s. 6d. in the £. The net cost of an English article costing 20s. is, therefore, really only 17s. 6d. Foreign articles are, however, sold in England subject to no taxation; in other words, at net cost. Now it makes no difference to the individual purchaser whether the price he pays represents net cost or net cost plus taxation. If he can buy a German article for 19s. 6d. instead of an English article for 20s. he will do so. But from the national point of view the real cost of the English article was only 17s. 6d., and what has happened has been that the man has bought an article two shillings dearer, but has made sixpence by defrauding the revenue of half-a-crown. That half-a-crown will have to be found somehow, and will be imposed as an extra burden on British industry and increase the cost of production in this country.

In Germany, on the other hand, foreign goods bear a higher proportion of taxation than native goods. If a German buys an English article for 19s. 6d. instead of a German article for 20s., he is buying an article whose net cost is probably not more than 15s. at the most, while the German exchequer gains 4s. 6d., of which a substantial portion, if not the whole, is paid by the British producer. Stating the position generally, the burden of taxation falling on production in foreign countries is diminished, firstly, by the taxation on foreign competitive imports, and, secondly, by the large untaxed production which goes to the British market. In our case, under free imports, the cost of production is steadily increased by the growth of competitive imports, which now amount to over £100,000,000 a year. That £100,000,000 of untaxed foreign manufactures sold in England represents a loss of £12,500,000 to national and local revenue which is made good by extra taxation on the rest of British industry. In this respect, again, tariff reform, by increasing the amount of British production subject to taxation, and by levying a share of taxation on such foreign manufactures as come in in spite of the tariff, will lighten the burden on British production generally, diminish the gross cost, and increase our power of competition in neutral markets.¹

¹ One factor in cost of production that has not been included above is the increased cost due to social legislation affecting sanitary and other conditions in factories. In the long run, indeed, such legislation is the very reverse of added cost because it tends towards national health and efficiency. It is also true that similar legislation exists in many of the countries which are our chief competitors, *e.g.*, in Germany. At the same time there is no doubt that in many individual cases our trade has suffered from competition with industries not subjected to the same restrictions and regulations as ours, and the desire to establish a high standard in the social conditions of production is in itself quite a sufficient justification for the imposition of any degree of protection that may be required in order to secure the desired end without sacrificing production itself.

In all these respects, then,—price of raw materials, efficiency of labour and direction, scale of production, and cost of taxation—tariff reform in England will mean not dearer production but cheaper production, not a loss of export trade but an increase of export trade due to increased productive strength.

The free-trader's reply to this will no doubt be that even if the cost of production is not increased the price to the consumer will be increased by the full amount of the duty and that the manufacturer will swallow the whole extra profit. In other words, the men who to-day are in keenest competition, each trying to get all the orders he can at a fair profit, or often at almost no profit at all, are suddenly going to stop competing, agree to maintaining an all-round rise of ten per cent. or so on the rate of profits in certain trades, and manage to keep out all new competition in those trades. The idea is ridiculous. The free-trade argument also forgets to make any allowance for the foreigner, who sooner than lose a valuable market altogether, will cut down his prices still further (in other words, pay part or whole of the duty), a step which has continually been taken by British manufacturers when tariffs have been raised against them elsewhere.

An interesting passage bearing on the question whether a tariff necessarily raises prices will be found in the recently published *Life of David Syme*. The author writes :

“ Drawing evidence from all parts of the world to support his views, he (Mr. Syme) showed that the ultimate effect of all successful domestic manufactures established by protection has been to lower the price of goods ; and that internal competition had not only destroyed monopoly but reduced the price of the article to the minimum of reasonable profit on the capital

employed. He then predicted that the effects of protection in Victoria would be, firstly, to create local production ; secondly, to create internal competition ; thirdly, to compel the foreigner to pay the whole or part of the duty as a toll for the privilege of entering the market ; and finally, for all those reasons combined, to reduce the price of goods to the consumer."

This prophecy was justified by results. In 1895, thirty years after the adoption of a Victorian tariff, a board of official imports thus reported on the protective system of Victoria :

" On the vexed question of whether goods have been made dearer or cheaper by the imposition of protective duties we have a deal of evidence. It is an established fact that such goods are, as a rule, cheaper to the public than they were before the imposition of such duties."

Free-traders may admit that both manufacturers and workmen in the protected industries, or even producers in general, will gain by fiscal reform, but they say that the consumers will suffer by increased prices. And as every one is a consumer and only a certain number of persons producers they argue that the national loss will consequently outweigh the gain. Even assuming that tariff reform did raise the prices of the ordinary necessaries of life, the argument is so ridiculous that it is amazing that it should ever have been seriously put forward. For though there are many consumers who are not producers, there are no consumers who are not directly or indirectly dependent on the efforts of producers. Can the interests of wives and children be separated from those of the bread-winners ? Where does the income of widows come from but from the earnings of their husbands ? Even the wealthy shareholders' dividends depend on the success of production, and the aged pensioner's weekly

allowance is provided by taxes levied on production. There is a large class of earners, indeed, who depend on what are called "fixed salaries," or are professional men whose fees are fixed by custom or regulation. But even their interests are intimately bound up with that of the general body of producers. Production cannot improve without increasing the demand for clerks, bankers, architects, lawyers, doctors, while at the same time diminishing the competition in their ranks.

This discussion of the position of the consumer naturally brings us to the question of "dear food," of which so much has been made by free-traders. And the first question to ask is, even supposing the proposed duties did raise the price of foodstuffs, by how much would they raise it? Let us look at Mr. Chamberlain's proposal, which created so terrible an outcry. He proposed a duty of 2s. a quarter, or $\frac{1}{20}$ of a penny per lb. on foreign wheat only, not on Imperial or on British wheat. Even supposing that this meant a general rise in price by the amount of the duty, that could not possibly amount to more than one farthing on a 4-lb. loaf. But to make assurance doubly sure, Mr. Chamberlain proposed that any possible increase due to the preferential duties should be balanced by a substantial remission on such highly-taxed necessities as tea and sugar.

However, confining ourselves to the immediate effect of the increase of one farthing on the 4-lb. loaf, let us really seriously consider what all this great fuss has been about. The price of the loaf varies, at the same moment, all over England, and may differ as much as a penny between places not twenty miles apart. Again, the price of wheat fluctuates enormously, more than 2s. a quarter every few months. A few years ago it was down to 23s. a quarter. Last July it was up to 43s. 3d. In

1903 when the loaf was $4\frac{1}{4}$ d. free-trade oratory drew harrowing pictures of thirteen million people who would be pushed over the border line that separates hunger from starvation by an increase to $4\frac{1}{2}$ d. Since 1906 the loaf has been steadily over 5d., and was up to 6 $\frac{1}{2}$ d., and even 7d., last May, and the hungry thirteen millions have, according to the same orators, been luxuriating in the blessings of free trade !

As a matter of fact the effect of the preferential duties, so far from raising prices, will probably be to lower them. Prices are fixed by the relations of supply and demand, and duties can only affect them in so far as they are levied on the whole supply, or in so far as the untaxed supply falls short of the demand. The Americans have a duty of about 8s. a quarter on wheat. But wheat is not 8s. a quarter dearer in the United States than in England where there is no duty. How could it be, seeing that it is the same wheat that is sold here after paying the cost of transportation ? A duty, however high, on imported coal would not affect prices in England because our home production meets all our needs. In exactly the same way preferential duties on foodstuffs will not raise prices if those foodstuffs can be grown in sufficient quantity within the Empire. The issue is one of fact and not of theory. To-day we draw 36 per cent. of our imported wheat supply from the Empire, though hardly a beginning has been made of developing our resources in that respect. The Canadian North-West alone grows 100,000,000 bushels of wheat—half our total annual requirement from oversea—on the merest portion of its wheat-bearing land, and could easily grow 500,000,000 bushels. Australia can produce an enormously heavy wheat crop in good years. India, on the other hand, on its irrigated lands, can produce an equally heavy crop

in all seasons. Under the stimulus of preference capital would flow into the development of railways in the Empire ; emigrants would pour into the territories of the Empire to develop them. And the inevitable result of this advance would be a fall of prices. It was not free trade that created cheap American wheat. Wheat was dear for nearly thirty years after free trade.¹ It was the great development of the American Middle West by European capital and European immigration. And it is a similar development of British territories that we are aiming at through tariff reform.

Meanwhile, till the Imperial supply has grown sufficient to meet, and more than meet, our demand, the farmers and the railways of America and of other foreign countries which at present supply us with wheat, will not let go of the British market, the best market in the world, without a struggle. They must sell their produce, and there are no other markets which they can develop, at any rate for some time, except at a loss, compared with selling in England, of considerably over 2s. a quarter. The best business policy for them will be to pay the British duty between them, as they did pay the 1s. registration duty in 1902,² until such time as they can develop new markets or find new profitable uses for their land.

At this point we have to meet another common free-trade argument, namely, if the price of wheat is not to be raised where is the profit to the Colonies ? The answer is very simple. If the foreign producers keep

¹ The prices of wheat were in 1843 (under Corn Laws) 50s. 1d. ; 1853 (after repeal), 53s. 3d. ; 1863, 44s. 9d. ; 1873, 58s. 8d. ; 1883, 41s. 7d.

² The best proof of this is the fact that Liverpool prices, throughout the time the duty was in force, maintained the same proportion to Chicago prices. If the duty had been paid by the British consumer and not by the shippers the difference would obviously have been 1s. more.

down the price by paying the duty, they may temporarily keep a share of the market. But the fact that the Colonial producer has an advantage of 2s. a quarter is bound to tell. Emigration and capital will naturally flow to the favoured territories, and with their development will come a fall in the cost of putting their wheat on the market which will enable them sooner or later to displace the foreign competition altogether. The market price may go on falling, but as long as, owing to the development of the country, the farmer's costs fall with it, he continues to profit. And in any case what the colonies are anxious to secure is not high profits for their existing population, but the development of their territories and the increase of their total population. There certainly seems to be no doubt in the Colonies themselves as to the substantial advantage preference would be to them.

On other occasions, indeed, free-traders tend to enlarge upon the enormous favours we are asked to give to the Colonies, in order to contrast them with the worthlessness of the preference they are likely to give to us. They ignore the substantial help that the existing unreciprocated preferences have been to us, and suggest that future preferences will be worthless because the Colonies mean to make even the preferential duties so high that hardly any goods can get in. Undoubtedly the tendency in some of the Dominions is towards a higher tariff. If so, surely all the more reason for a preferential arrangement which may at least mitigate that tendency as far as it affects us. But even in the unlikely event of preference on our side securing no return in the lowering of their duties to us, but only a raising of their duties to foreign goods, that preference is still bound to be of real value to us.

Free-traders always assume that the object and

effect of a tariff is to exclude all foreign trade. The absurdity of this as regards raw materials and food-stuffs has already been shown. But no tariff is ever completely exclusive, even of manufactures. Even under the highest tariff large quantities of manufactured goods of certain special qualities come in. Indeed, protection, by developing the consuming power of the one market, may actually increase the import of manufactured luxuries and specialities, while excluding competition in ordinary staple manufactures. As the Dominions develop, whether under low tariffs or high tariffs, their imports will steadily increase, and that increase can be secured for us by preference. Moreover, it is time free-traders in England realised that the danger to British trade in the Dominions is not Colonial protection but foreign competition. The most disastrous thing that could happen to British trade would be the adoption of an unqualified free-trade policy by Canada. What we might possibly gain at the expense of the Canadian manufacturer would be nothing compared with what we should lose by having to face American competition on equal terms. Our need in the Empire is not so much lower duties as more effective preference. From the broader Imperial point of view, indeed, what British trade loses to the Colonial manufacturer is not loss at all, but only transference of industry from one part of the Empire to another. What the British manufacturer, on the other hand, or the Colonial farmer, loses to foreign competition is a direct loss of industrial or agricultural strength, of man-power and revenue, to the Empire as a whole.

CHAPTER III

TARIFF REFORM AND REVENUE

THE fiscal question, as its name implies, is not only a trade issue but a revenue issue. The annual need of the Exchequer, no less than the daily need of the working man, is steadily forcing the country to face the fact that the present fiscal system has broken down, and is incapable of meeting the national requirements, and that, quite irrespective of the state of trade or employment, some new fiscal method must be devised to cope with the situation.

The existing fiscal system falls into two main parts. On the one side are the indirect or consumption taxes, viz., customs and excise, levied on wine, beer and spirits, tobacco, tea, coffee, sugar, dried fruits and a few other groceries. These duties are few in number but extraordinarily high, and being levied by weight, fall with exceptional severity on the inferior qualities of goods. The duty on sugar, for instance, is nearly $\frac{1}{4}$ d. per lb., or 1s. 10d. per cwt. The duty on tea is 5d. a lb., which hits the poorer qualities heavier than the finer. The duty on tobacco is 3s. 8d. per lb., an increase of 8d. under the new Budget. The duties on intoxicants are even higher, and though partially justified by the desire to restrict intemperance, do undoubtedly impose a heavy burden on the poorer classes. The total indirect taxation of this country per head of population on food, drink and tobacco, is higher than that of any other country. We raise £1 10s. per head of the population

on these articles, Germany 17s. 7d., the United States 15s. 7d. In foreign countries the customs duties are mainly raised on imported manufactured goods. It is often assumed, quite erroneously, that such taxation falls wholly on the inhabitants of those countries. On the other hand, there can be no doubt that the whole of the British customs and excise duties are paid solely and entirely by the British consumer. In any case the burden of indirect taxation in this country is not only very heavy, but thoroughly inequitable. It falls almost entirely on a few articles which, with the exception of intoxicants, are to all intents necessities of even the poorest households and are consumed in almost as large quantities by the very poorest as by the very richest.

On the other side are the direct taxes, income-tax, death duties, etc., which are levied on a limited and comparatively well-to-do class. These again are extraordinarily high, far higher than in any other country in the world.¹ These taxes have many merits. But they are not without grave inconveniences which increase rapidly as their incidence is raised. In the first place, their effect is indeterminate, that is to say, the tax may result either in a reduction of unnecessary expenditure or in a check to investment, in other words, may either be a tax on income or a reduction of capital. As long as they are low, income-tax and death duties both tend, on the whole, to be taxes on income. The higher they rise the more they tend to be a direct check to investment or a direct drain on capital. If there is any value

¹ In November, 1908, Baron von Rheinbaben, Prussian Minister for Finance, said: "The burden of direct taxation amounts in Germany to 26s.; in France to 28s. The indirect taxation is in Germany 22s. 6d.; in France 54s. The amount of direct taxation in England is 57s. and of indirect 38s., making altogether a total of—in Germany about 49s., in France 82s., in England 95s."

in the general consensus of opinion among business men, irrespective of party ties, we must accept it as a fact that our direct taxation has by now reached a point at which it threatens seriously to encroach upon the capital necessary for our industries, and to leave no margin available for great national necessities. Moreover, these direct taxes, while comparatively easy to levy when low, offer the very strongest temptations to evasion once they exceed a certain figure. There is a great deal of evasion already, and the amount of it may increase enormously as the effect of the recent Budget begins to be fully appreciated.

Tariff reformers do not propose to abolish either the present direct taxes or the consumption taxes. But they do propose to reduce the latter very substantially, to keep the former within more reasonable limits, and to add to them a third source of revenue in the shape of the tariff on foreign manufactures and foodstuffs. As contrasted with the existing consumption taxes these duties will be far more equitable. They will be proportioned, not to mere elementary needs, which are the same among rich and poor, but to general expenditure, and, being heaviest on articles of luxury, will fall mainly upon the well-to-do. At the same time while falling mainly on the rich they will fall entirely upon their expenditure, more particularly their expenditure on luxuries. Consequently while discouraging extravagance, they will tend to encourage productive investment. They will thus be no less equitable than the existing direct taxes, and much less likely to interfere with the sources of our prosperity. It is this better adjustment of taxation to spending power, without injury to production, which is summed up in the phrase "broadening the basis of taxation."

There is another sense in which tariff reform will

broaden the basis of taxation. It will enable revenue to be levied from all who trade in the British market, irrespective of their citizenship or domicile. That is what is meant by the phrase "taxing the foreigner." There can, of course, be no question of taxing a foreigner who stays in his own country and keeps his goods in his own country. But when in person, or through his goods, he comes to trade in the British market, there is not the slightest difficulty in making him pay a share of the taxation for the upkeep of the market. All that is required is a tariff which presents him with the alternative of either losing his trade altogether or else reducing his profits and thus paying the whole or some portion of the duty. There is an extraordinary superstition, current on free-trade platforms, though not usually endorsed by free-trade economists, that the whole of every duty, whatever the circumstances, is paid by the consumer. If that were the case the only intelligent fiscal policy for any country to pursue would be to levy all its taxes on its exports, and so tax the foreign consumer ! ¹ As a matter of fact, the incidence of a duty as between producer and consumer varies with the particular circumstances of every transaction. But as the purchaser is generally in a stronger strategical position than the seller, especially if he has an alternative supply to fall back on, there need be no difficulty, with a well-adjusted tariff, in making the foreign seller contribute a substantial share to the revenue.

But important as it may be to "broaden the basis of taxation" by a better adjustment of duties and by

¹ It is interesting to note that when an export duty on coal was imposed in 1901 all the leaders of the present free-trade party insisted that it would be paid by the British producer. As far as the inferior grades of coal were concerned this proved largely true. But in the case of Welsh and other better quality coals the duty was paid by the foreign consumer who had no other sources of supply easily available.

including in the scope of the national taxation all who trade in the country, yet the really important thing is to broaden the basis of national industry upon which taxation is raised. Taxes, however levied, tend, in the long run, to diffuse themselves over all classes, and the burden, even when most unskilfully applied, tends to adjust itself and become less inequitable and less injurious in course of time. What is far more serious than a bad system of taxation is a total quantity of taxation which, however skilfully levied, is disproportionate to the taxable capacity, in other words, to the productive power of the community as a whole. And that is the danger which confronts us to-day.

Public expenditure of all kinds is steadily increasing, and that increase is, in most instances, inevitable. As regards the heaviest item, the expenditure on defence, it is determined not by our own inclinations or our own taxable capacity, but by the growing ambitions and growing taxable capacity of other states whose productive man-power is rapidly out-distancing ours. The way to meet them is not to go on piling an ever-increasing burden on shoulders already overweighted, but to broaden the shoulders on which the burden has to rest. The real importance of tariff reform from the revenue standpoint lies, not in the revenue incidentally derived from the tariff, but in the production created, which will pay its due toll to the exchequer through all the various taxes direct and indirect. "Take care of production and revenue will take care of itself" is the maxim which should direct all our fiscal policy. If our tariff helps production it will automatically create revenue ; if it fails to help production, it may indeed levy a few millions from the foreigner, it may distribute the burden of taxation more equitably ; but it will

fail to solve the great problem before us, which is not how to add to our taxes, but how to add to our taxable capacity.

It is the failure to understand this aspect of the question which a year or two ago led some free-traders to discover a mare's nest, over which the whole body of free-traders have been clucking in maternal exultation ever since. " If the tariff succeeds in raising revenue it can only be by letting in the foreign goods, in which case it obviously cannot protect the British workman ; if it keeps out the foreign goods it clearly cannot raise revenue from them ; it is only the stupidity of tariff reformers which leads them to imagine that they can both raise revenue and protect employment by the same tariff." As a matter of fact, the dilemma is purely imaginary. If a ten per cent. tariff failed to stop any of the £150,000,000 of foreign manufactures which at present come into this country, it would have no other immediate effect than the raising of £15,000,000 of revenue. If it kept out £100,000,000 and let through £50,000,000 it would no doubt only raise £5,000,000 of revenue from imports. But it would create a home production, directly and indirectly¹, of something like £200,000,000. And this home production would, in the ordinary course of events, through the other existing channels of revenue, contribute something like £25,000,000 to the local and national exchequers. This, added to the £5,000,000 directly collected by the tariff, makes £30,000,000, or twice as much revenue as would result if the tariff had no protective effect. In fact the more complete the protective and stimulating effect of the tariff the greater the ultimate yield of revenue. But more than that : the more effectively a tariff stimulates industry by keeping out competitive manufactures and

¹ See pages 20-21.

encouraging the import of raw materials, the greater will be the national demand not only for domestic products but also for those foreign specialities and luxuries which will come in regardless of the tariff. In other words, paradoxical as it may seem, the more manufactures of one kind a tariff keeps out the more revenue it will raise from other manufactures which it lets in. The example both of Germany and of the United States shows how entirely successful one and the same tariff may be both as a domestic instrument of protection and as a fruitful and expanding source of revenue.

A variant of the same free-trade misconception is the common argument that a protective tariff is uneconomical because the State only gets the duty on the portion imported while in the case of the portion made or grown at home the hypothetical difference in price is pocketed by the "producer." That the "producers" as a body are identical with the taxpayers as a body, and that therefore there is no loss of revenue, but only an increase of taxable capacity, due not only to increased profits and wages but still more to an actual increase of production, is a feature of the situation which it is apparently beyond the power, or the will, of the ordinary free-trader to grasp.

CHAPTER IV

TARIFF REFORM AND NATIONAL POLICY

SOME free-traders seem to anticipate wholesale civic corruption as the result of fiscal reform. The argument, apparently, is that because in the protectionist country, America, politics are generally held to be corrupt, therefore corruption must follow on a very different form of protection in England. It leaves out of account, firstly, the fact that many protectionist countries, e.g., Germany and Switzerland, are as free from political corruption as this country, and that in America more than nine-tenths of the corruption arises out of municipal and State affairs, out of contracts, railway business, etc., all cases in which the presence or absence of a tariff can make no conceivable difference. As a matter of fact there is already abundant scope for corruption in our political life if the habits of our legislators inclined them to make use of them, or public opinion were prepared to tolerate such a thing. As for our municipal life neither the extent of the scope for corruption nor the actual existence, in certain cases, of direct or indirect corruption can be ignored. Yet would any one propose to abolish our system of local self-government simply on the ground that it gave rise to opportunities for malversation? If Englishmen are not fit to frame a national tariff honestly and with a view to the national welfare they are not fit for anything.¹

¹ See on this subject Archdeacon Cunningham's "Tariff Reform and Political Morality" in *Compatriot Club Lectures* (p. 302).

Another political objection raised by free-traders concerns the effect of tariff reform upon our foreign relations. According to them we enjoy an immense fund of popularity due to our obliging conduct in the matter of free imports, a popularity we should at once forfeit if we changed our policy. Tariff reform would engender economic friction, give rise to tariff wars, and these in turn to real wars. The argument is based on an entire misconception of the meaning and purpose of foreign tariffs and of the attitude of foreign nations on such questions. Our adoption of a tariff is not in the least likely to cause other nations to alter their own tariffs, which have been framed not from any consideration of goodwill towards us but solely with a view to their own industrial development, or lead them to regard with peculiar resentment a measure on our part which they themselves, and every other nation but ourselves, are continually taking. If, indeed, the suggestion of the free-traders were true, if other nations were not prepared to tolerate from us what they expect us to tolerate from them, then the sooner that state of affairs is changed the better.

But the really important aspect of tariff reform, transcending all others, is its bearing on the question of Imperial strength and Imperial unity. In all countries and at all times economic union, or the promotion of trade among fellow subjects, has been considered a vital factor in building up national unity. The United States could never have held together under any system but that of mutual trade on which Alexander Hamilton insisted. There would have been no united Germany but for the *Zollverein*. Canada is, perhaps, the most striking instance of all of a nation which has been deliberately built up and maintained as one, in spite of every consideration of geography, by economic

legislation. If it were not for the Canadian tariff there would never have been any economic interchange whatever between Eastern and Western Canada. British Columbia would have grown up as an economic annexe of the Pacific States, the Canadian North-West as an extension of the Dakotas and Montana. Neither would have had any business relations with the other or with Eastern Canada and, under such conditions, the growth of a Canadian national sentiment would have been an impossibility.

Complete free trade within the Empire combined with a common tariff against foreign countries is out of the question, even if it were desirable, which is extremely doubtful, at any rate under present conditions. But a system of Imperial Preference which helped to direct trade within Imperial channels would undoubtedly tend to have the same effect in drawing together the scattered territories of the Empire and developing the sentiment of a common unity. Every measure that stimulates mutual trade, that encourages the individual to seek his career in the Empire, must increase mutual comprehension and mutual interest, and, in a hundred different ways, must strengthen the ties of sentiment that bind the whole together. Sentiment may not be always identical with material interest. But from the affection of the family to the love of country, all the forms of sentiment that bind men together have their roots in the association brought about by community of material interests. Sentiment may remain intense between individuals and for a lifetime without common interest and without intercourse. But between men in the mass and over the wider periods of time which come within the statesman's purview, sentiment under such conditions soon ceases to be an effective force that can be reckoned upon for any practical purpose.

To sneer at any measure that is calculated to strengthen the material interests which bring the different parts of the Empire into touch with each other as a "sordid bond," and to suggest that it derogates from the loftier sentiments that form the real abiding bond of union, betrays a hopelessly narrow outlook and an amazing ignorance of the relation between the forces that cement human society. The emotions inspired in an Englishman by the Heights of Abraham or in an Australian by Westminster Abbey are not impaired or rendered sordid by any measure which may create or multiply for each of them opportunities for realizing those emotions. The bonds of commerce were not reckoned sordid or ineffective by Cobden and Bright, who, indeed, erred on the side of exaggerating their influence. Forgetting the centuries of common intercourse and common interests crystallized in the sentiments of race, of language and nationality, they imagined that freedom of international trade, once accepted, would forthwith extirpate all those feelings, and replace them by the more comprehensive sentiment of a common humanity. They failed to see that the bond of present interest is most effective when it is directed to the reinforcing of existing sentiments. Mutual trade cannot overthrow the barriers between nations. But it can strengthen the ties of union between different races in the same State ; it can pave the way towards political union between severed and unorganized communities of kindred race and common ideals. The encouragement of mutual trade kept together the union of the American States in its infancy : it made possible the consummation of political unity in the case of Germany. In our case the development of mutual interests is required both to hold together the Empire as it exists and to pave the way to the Empire as it ought to be.

Imperial Preference means an enormous increase in the volume of trade between the different parts of the Empire ; in other words, an enormous increase of the opportunities for the citizens of the different parts to come into contact with each other. Expanding trade means better steamship services, improved cable communications. Not only business men but politicians and students will pass more easily from one part of the Empire to another and get into touch with the opinions and needs of each part, while the ordinary stay-at-home citizen will learn to acquire a fuller knowledge and a truer sympathy for his fellow subjects in other parts of the Empire in proportion as his daily paper familiarizes him with their affairs.

But commerce and industry have also a stimulating and creative aspect. A market does not only mean profits for individuals who buy and sell goods in it. It means the creation of populations who live by producing and consuming the goods there bought and sold. In the past sixty years, under the system of free trade, England has created, through her market, a population numbering now at the least fifty or sixty million souls, and she has created them almost entirely in foreign countries. The middle west of the United States, the Argentine, great industrial regions of Germany and France, to give but a few instances, are peopled by millions who would never have come into existence but for the British market. An intelligent direction of the creative power of that market to national and Imperial ends would have established the whole of that vast population under the British flag. The science of population, the knowledge of how to build up the greatest number of people at the highest level of well-being and efficiency, is the foundation of statesmanship. Judged by that standard, how miserable appears the

result achieved by British statesmanship in the Empire ; how petty compared with the far greater result accomplished with smaller resources by the United States. The creative energy of our market, the great stream of our emigrating man-power, has for two generations been allowed to dissipate itself upon the world at large, and has been irrevocably lost. But our territories and their resources still remain, and, if we seize the occasion while it is still ours, we can yet build upon them the population and the national strength which alone can make the Empire secure. We shall have lost two generations in the race of nations, but nothing more.

The result of our dissipation of energy outside the Empire has been to leave the Colonies almost unpeopled. Their population straggles thinly over vast areas, their realized and available wealth is comparatively small and is urgently needed for internal development. They cannot afford to undertake, either in men or in money, that share in the burden of Empire which the defence of their interests or their territory may demand. What can Canada do to-day for the defence of her 400 miles of frontier ? What will Australia and New Zealand be capable of doing in the near future adequate to the maintenance of Imperial interests in the Pacific ? The fault is not theirs, but ours, who have been content with their weakness when we might have made them strong. The spirit, indeed, on their part is willing enough. It was shown in the crisis of the South African War. It was shown again only a few months ago when British statesmen drew attention to the serious menace directed against that sea-supremacy upon which the existence of the Empire rests. The readiness to make a beginning at systematic naval co-operation has been shown at the recent Imperial Defence Conference. But the fact

that it is only a beginning is due to the long delay in the national development of the Colonies under the policy of stimulating the growth of foreign countries, and future advances along this line will depend largely on the economic growth of the dominions. Again, the difficulty in the way of effectual defensive partnership, which our negligence and short-sightedness has created, applies no less to Imperial partnership in general. That partnership must be based on the principle of equality. Yet there can be no real equality so long as the actual disparity in wealth and population remains as great as it is. The development of the Colonies by Imperial preference is essential to giving them the strength and power to assume the responsibility and burden of Empire on an equal footing.

There is still another aspect of the policy of Imperial preference on its quantitative side. The object of that policy is not only to develop the Colonies but to stimulate and maintain the industrial strength of the mother country. That industrial strength has declined enormously of recent years, judged by the only available standard when we are dealing with political issues, that of comparison with the productive output of other nations, and is declining more rapidly every year. Yet it is upon that industrial strength that the main burden of the defence of the Empire, the maintenance of sea-power, and the defence of the land frontiers of the Empire, must fall for the next generation. To develop and stimulate the industrial power of England by every means in our power is the most urgent provisional necessity for the maintenance of the Empire. And here, too, Imperial preference—aided, no doubt, by a saner national economic policy—furnishes the only means adequate to the object in view.

In one way or another the policy of Imperial preference

—and that policy includes every form of preference : preference in Customs duties, preference in navigation, State-aided migration—is indispensable to every advance towards the great goal of Imperial unity. It can strengthen the bonds of interest and sentiment ; it can harmonize divergencies of interest and so create the political conditions for successful co-operation ; it can give the national strength which will enable the Colonies to take their place ultimately as equal bearers of the burden and equal sharers in the power and the pride of place ; lastly, it can give the people of these little islands a renewed vitality and industrial power which will enable them to preserve the Empire intact while the main burden and responsibility of its defence still rests upon them. Less important but still useful steps towards Imperial partnership may be made during the next few years even if preference should not be achieved. But that Imperial unity should be permanently secured without the aid of Imperial preference and on any other basis is almost unthinkable. The free-trade system as established in England and the ideal of British Imperialism are, in the long run, two incompatible things—as they were meant to be from the first. It is for those who profess an attachment to both ideals to decide which they are willing to forego.

Lastly and above all, Imperial preference, in one form or another, is essential as a recognition by each part of the Empire that it owes something to every part of the Empire—that it cannot, in commerce any more than in any other aspect of national life, treat nations or communities under the British flag as if that flag had no meaning. Imperial preference to-day is, first and foremost, a matter of sentiment and of political principle, and not of economic theory. A believer in Imperial unity may, on the question of economic theory,

be either a free-trader or a protectionist. He may hope for complete free trade, internal and external, throughout the Empire. He may strive to secure the greatest practicable measure of free trade, naturally aiming, first of all, at internal free trade, and, secondly, at external free trade. On the other hand, he may be a protectionist, and believe in the advantage, not only of protection for the Empire as a whole against the outside world, but also of a certain measure of internal protection between unequally developed portions of the Empire. But no Imperialist, in any real sense of the word, no one who "thinks Imperially," can justify the pursuit by any one part of the Empire of any economic policy, whether free trade or protectionist, which absolutely disregards the existence of the rest of the Empire. Yet that is precisely the character of the policy which this country has pursued for sixty years, and, as far as it was able, has forced upon the rest of the Empire. It was a policy introduced, not merely without regard for the responsibility of Empire, but with the disruption of the Empire as its clearly avowed object. And for that very reason the reversal of that policy, by some tangible recognition of Imperial unity, has become a matter of sentiment to Imperialists in this country, and still more to those in the Empire outside. It has of late been the fashion of the opponents of Imperial preference to dwell much upon the bonds of sentiment that unite the younger nations to the mother country. Yet what greater offence to that sentiment can be given than is conveyed in a blank refusal to modify, in the very slightest degree, or for however valuable consideration, a policy which was meant to be the instrument of disruption, and which, in the eyes of the younger nations, has always stood as the insolent symbol of our indifference to their welfare ?

It is for the recognition of a principle that our fellow-citizens across the seas are pressing—a principle they have never lost sight of, because they have never wholly despaired of the ideal of Imperial unity. Throughout the dark and dreary age that lies behind us, thinkers and statesmen like Joseph Howe, John Macdonald, and Cecil Rhodes kept that ideal before them, and contended for the economic policy bound up with it. For twenty years past, with ever-growing insistence, the younger nations have urged that ideal and policy upon the mother country. Their suggestions were met at the outset with contemptuous indifference, and seemed quite hopeless, till a happy combination of local circumstances prompted Sir Wilfrid Laurier, twelve years ago, to give effect to the idea in Canada without waiting for any corresponding action here. Canada's example was followed by the other Dominions, and, through the conversion of Mr. Chamberlain, started an agitation in this country which has already captured one of the great historic parties in the State and is growing in strength every day. The idea of preferential trade, unanimously indorsed by Conference after Conference, has now been applied in practice throughout the Dominions. It remains for this country to decide whether it will throw in its lot with that great Imperial trade-partnership which is already so much more than a mere aspiration. The question is ripe and over-ripe for a settlement. Vast issues depend on a decision which cannot be indefinitely or even much longer delayed.

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